Up the Amazon
Conserving the rain forest with a passion for fruit
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Section III

NEWSPAPER OF THE YEAR

FINANCIAL TIMES

Wednesday May 13 1992 EUROPE'S BUSINESS NEWSPAPER D8523A

US court upholds state's unitary taxation system

California's supreme court has rejected a challenge to the state's unitary taxation system, in a decision that could cost multinational companies with operations in the state about $792m in disputed tax payments.

British, Japanese and other foreign companies have been fighting California's unitary tax for a decade. The case was brought by Barclays Bank of the UK in 1984 and challenged the constitutionality of the tax method. Page 7

Gonzalez stands firm on strike

Spain's prime minister Felipe Gonzalez promised to guarantee the right of people to work during a half-day general strike, planned for May 28. The unions, which called the strike – and a further full-day stoppage in October – to protest at a decree that cuts unemployment benefits, have widened their protest to include an attack on government plans to introduce strike legislation and public sector cuts. Page 18

Earth Summit: President George Bush is to attend the UN-sponsored Earth Summit in Rio de Janeiro after US negotiators succeeded in removing strict limits on gaseous emissions from a treaty to be signed at the summit. Page 4

News Corporation, Rupert Murdoch's media group, underlined its recovery with a 76 per cent increase in net profits to A$334m ($250m) for the nine months to end-March. Page 19

Work ethic on wane: Japanese executives are increasingly lamenting the disappearance of the model worker, delighted to do unpaid overtime and inspired by loyalty. Page 18

Japan warned: Japan must improve investment conditions for foreign companies or face increasingly strong political pressure to redress the present imbalance in investment flows, say European companies. Page 4

BAA, the British airport operator, plans to build an £800m-£900m ($1.43bn-$1.61bn) fifth terminal at Heathrow, which already handles more international passengers than any other airport in the world. Page 8; Lex, Page 18

Stadium builders attacked: The French government said the temporary soccer stand, which collapsed killing 13 people, should never have been built. A Corsican court indicted two more people for manslaughter in the May 5 disaster.

Boat people pact: Britain and Vietnam agreed to resume forced repatriation of thousands of Vietnamese boat people from Hong Kong camps. A Hong Kong official said the camps could be empty in three years. Page 6

US rate cut hopes: US producer prices rose a modest 0.2 per cent in April, the same as in March and February, raising hopes of an interest rate cut by the Federal Reserve. Page 7

Machine tool crisis: Leaders of Europe's recession-torn machine tool industry are holding crisis talks with the European Commission in an attempt to win agreement on the first EC-wide industrial policy for the sector. Page 3

British Petroleum is selling its 57 per cent stake in Canadian subsidiary BP Canada for C$374m ($314m) in the wake of disappointing results. Page 19; Lex, Page 18; Plan to cut emissions, Page 8

Marks and Spencer, the international clothing and food group, reported a 1.3 per cent increase in pre-tax profits for 1991 as it successfully defended operating margins in difficult trading conditions. Page 20; Lex, Page 18

Procordia, the Swedish pharmaceutical and food group controlled by Volvo and the Swedish state, announced a 14 per cent rise in first-quarter profits to SKr1.11bn ($187m) but the strong growth is not expected to continue. Page 19

Olivetti, the troubled Italian computer and office equipment group, announced a loss of L459.8bn ($372m) for 1991, against a L60.4bn profit in 1990, and passed its dividend. Page 19

Turner Broadcasting System, the US media group that controls the CNN cable network, saw first-quarter net earnings fall from $3.8m to $731,000, largely because of costs associated with coverage of the Winter Olympics. Page 22

Kennedy call: CIA and FBI chiefs urged the release of stacks of classified Kennedy assassination documents to help resolve conspiracy theories surrounding the 1963 murder of President Kennedy.

STOCK MARKET INDICES		
FT-SE 100:	2,722.4	(–15.4)
Yield	4.47	
FT-SE Eurotrack 100	1,188.48	(–3.23)
FT-A All Share	1,219.48	(–0.5%)
FT-A World Index	142.79	(+0.4%)
Nikkei	18,588.53	(–99.56)
New York:		
Dow Jones Ind Ave	3,385.12	(–12.46)
S&P Composite	416.29	(–2.20)
US CLOSING RATES		
Federal Funds:	3 11/16%	(3¾%)
3-mo Treas Bills: Yld	3.684%	(3.703%)
Long Bond	101 7/32	(101 5/32)
Yield	7.858%	(7.86%)
LONDON MONEY		
3-mo Interbank	10 1/8%	(10 1/8%)
Liffe long gilt future:	Jun 98 13/32 (Jun 98 31/32)	
NORTH SEA OIL (Argus)		
Brent 15-day (June)	$19.85	(19.75)
Gold		
New York Comex (May)	$335.3	(337)
London	$335.2	(336.3)

STERLING		
New York:		
$	1.8118	(1.7947)
London:		
$	1.8125	(1.7935)
DM	2.94	(2.9425)
FFr	9.865	(9.89)
SFr	2.725	(2.74)
Y	236.5	(238.75)
£ Index	93.0	(92.9)
DOLLAR		
New York:		
DM	1.62415	(1.63835)
FFr	5.45	(5.5065)
SFr	1.50385	(1.5255)
Y	130.65	(133)
London:		
DM	1.6215	(1.6405)
FFr	5.4425	(5.515)
SFr	1.504	(1.528)
Y	130.45	(133.15)
$ Index	64.1	(64.6)
Tokyo close Y 132.8		

Austria	Sch30	Hungary	Ft182	Malta	Lm0.50	S.Arabia	SR9.00		
Bahrain	Din1.000	Iceland	IKr180	Morocco	MDh11	Singapore	S$4.10		
Belgium	BFr60	India	Rs20	Neth	Fl 3.50	Spain	Pta200		
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14		
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00		
Denmark	DKr14.	Italy	L2500	Oman	OR1.20	Thailand	Bht50		
Egypt	E£4.00	Jordan	JD1.20	Pakistan	Rs35	Tunisia	Din1.000		
Finland	FM10	Korea	Won 2500	Philippines	Pso45	Turkey	L6000		
France	FFr8.50	Kuwait	Fils 500	Poland	Zl 18,000	UAE	Dh8.00		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190				
Greece	Dr250	Lux	LFr60	Qatar	QR10.00				

EC withdraws its monitors from Bosnian capital

By Laura Silber in Erdut, Croatia, and Judy Dempsey in London

EUROPEAN Community monitors withdrew from Sarajevo yesterday, declaring it was too dangerous to remain in the war-ravaged capital of Bosnia-Hercegovina.

Although local Serb leaders later declared a five-day unilateral ceasefire in Bosnia, the EC monitors' pull-out signalled pessimism about peace prospects in the breakaway republic.

Serb irregulars, backed by the Yugoslav federal army, yesterday again pounded the capital, where the main television transmitter was knocked out. The army also continued to bombard the south-western city of Mostar, while Croat and Serb militias fought for control of a swathe of territory bordering Croatia.

The ceasefire, due to start at 6 am today, was called by an unofficial Serb parliament in Banja Luka, north-west of Sarajevo.

The Serb leaders called on the EC to renew its Yugoslav peace conference before the five-day ceasefire came to an end. If the EC failed to act, local Serbs would appeal to Serbs throughout the world to join them "in their struggle for survival," they declared.

The EC pull-out yesterday coincided with other steps to isolate Serbia in an attempt to increase pressure for peace between the warring Yugoslav ethnic groups.

The 52-member Conference on Security and Co-operation in Europe decided in Helsinki to exclude the new Serb-dominated Yugoslav state from any decisions taken on Bosnia. Russia had earlier rejected excluding Yugoslavia from the CSCE.

In addition, the US withdrew its ambassador from Belgrade, the Serbian capital, to protest at Serbian involvement in Bosnia. EC foreign ministers agreed to withdraw their ambassadors from Belgrade earlier in the week.

More than 1,300 people have been killed, and more than 500,000 displaced or made homeless since the federal army attacked Bosnia after it was recognised by the international community six weeks ago.

In London, Lord Carrington, chairman of the peace conference on Yugoslavia, said he was increasingly pessimistic about any successful outcome of the conference. He said: "It looks even more unlikely that, in the present circumstances, a peace conference would be successful."

Lord Carrington rejected secret talks held last week between Bosnia's Serb and Croat leaders in which they planned to divide Bosnia, eventually annexing parts of it to Croatia and Serbia.

He said this was "basically a carve-up of Bosnia-Hercegovina and that, of course, would be quite unacceptable to the Community because it leaves the Moslems, who are the majority, out in the cold".

In Geneva, a UN envoy described Bosnia as "a state of horror."

Mr Jose-Maria Mendiluce, an official at the UN's High Commission for Refugees, said: "What we are seeing is something like World War Two with population centres being destroyed and towns and villages attacked, not as military objects, but with the sole purpose of driving the people away."

Union warns of action on May 25 unless offer is raised

Bonn faces engineering workers' pay strike

By Christopher Parkes in Frankfurt

OPEN hostilities between Europe's biggest trade union and the mighty German engineering industry – which produces annual sales of DM1,000bn ($606bn) – will break out on May 25 unless employers improve their 3.3 per cent pay offer by the end of this week.

Announcing his ultimatum and the starting date for the long-expected strike, Mr Franz Steinkühler, president of the IG Metall union, which represents 4m engineering workers, said yesterday that his only options now were "capitulation or strike".

Gesamtmetall, the employers' association, said its 3.3 per cent offer remained the basis for any further negotiation. A deal approaching last year's 6.7 per cent would cost hundreds of thousands of jobs, added Mr Hans-Joachim Gottschol, the association president.

Both sides have rejected arbitration. A structured deal giving more to the lower paid, similar to that agreed in the recent 5.4 per cent public sector settlement, is also ruled out.

The union claimed yesterday that such "social elements" were unsuitable in a workforce where pay ranged from DM2,000 to DM6,000 a month. The range in the public sector was between DM2,000 and DM20,000.

In the absence of a new offer, Mr Steinkühler said, an extraordinary union executive meeting would be called next Monday to decide which regional members would be balloted for strike action. Voting would run from May 20 to May 22.

The dates announced yesterday comprise the final data needed to complete the programming of a strike which seemed inevitable from the start of negotiations in early March.

If it follows its tradition of seeking maximum effect with minimum outlay in terms of strike pay, IG Metall is most likely to start by calling out suppliers to the motor industry, which employs some 900,000 and has annual sales of almost DM300bn.

Beyond the pre-strike rhetoric, there is wide agreement that German manufacturing industry faces a drastic slimming cure as it strives to restore competitiveness and cut unit labour costs. However, most plans, including a 20,000 reduction in jobs at Mercedes-Benz are based on natural wastage and early retirement.

Recently published estimates from leading management consultancies said the German auto industry should reduce its payroll by 100,000 in the next few years, mechanical engineering should cut 150,000 jobs and electronics 120,000.

Because forced redundancies are rare and difficult to implement in the rigid German labour market, and unemployment benefits are around two-thirds of basic pay, the employers' threats of job losses have yet to make much impression on a workforce determined not to see living standards undermined.

Since recent deals have included 5.4 per cent for public servants, a 5.8 per cent package for bank staff, 5.9 per cent for shop workers and up to 7 per cent in some small specialist sectors, Gesamtmetall is considered to have little chance of settling for much less than 6 per cent.

"It will start on May 25, last for three weeks and end with about 5.7 per cent," one expert observer forecast yesterday.

Germany's democratic system will be "threatened" if there is not an early and radical change in government policy towards eastern Germany and the costs of unification, the opposition Social Democrats (SPD) warned yesterday. Mr Björn Engholm, the SPD leader, accused the coalition government of Chancellor Helmut Kohl of "disguising" the extent of economic collapse in the east of the country, of underestimating the costs of recovery, and of lacking any serious ideas to deal with it. Page 2

Ultimatum: Franz Steinkühler, leader of the IG Metall union

Franco-German corps takes shape, Page 2

Queen Elizabeth makes right royal Strasbourg debut

By David Gardner in Strasbourg

IT WAS as close to a full house as Strasbourg ever gets, when Queen Elizabeth II arrived to bestow her royal assent on "this ever more important Parliament of Europe".

Downing Street previews of what Her Britannic Majesty was to tell Euro-MPs had whipped up a fine froth of controversy, with Conservative Euro-sceptics scenting a Foreign Office plot to sell the prerogatives of the mother of parliaments down the Rhine to the mother-in-law of parliaments.

Labour European MP John Tomlinson, the inspiration behind previous invitations to the Queen in 1988 and 1990 which Mrs Margaret Thatcher's government had not seen fit to authorise, complained that the eve-of-visit storm gave "credibility today to a group of yesterday's men, wheeled out to give knee-jerk reactions to things that everybody has now accepted".

Lively, pre-speech discussion in Strasbourg on the insignificance of national parliamentary traditions when set against the reconciling enterprise of Europe – the bombshell allegedly embedded in the Queen's address waiting to go off in Westminster – appeared to indicate the need for an EC directive on the harmonisation of platitudes.

It either meant the Euro-sceptics' nightmare; or it meant there are not really any significant differences in Europe's national systems; or it paraphrased into "please don't mind our parliamentary idiosyncrasies, which are terribly useful when we want opt-outs of monetary union and the social charter"; or perhaps even "my ancestors gave up their sovereignty so why can't they?" Once translated into the nine official languages of the Community, the possibilities were likely to increase exponentially.

However, a "Buckingham Palace spokesman" made clear that "as a constitutional monarch, Her Majesty speaks on the advice of her government". So that was the end of the bombshell story.

More than anything else, this visit by the only EC head of state not to have addressed the parliament symbolised the transition from Thatcherite hostility to the Community to the intention of Mr John Major, her successor, to put the UK at "the heart of Europe".

The exercise went off without a hitch – unless it was the unsewn hem on the Queen's blue coat, which prompted a "hem, hem" from a noted royalist newspaper.

Mr Jacques Delors, president of the European Commission, yesterday vigorously denied that he wanted to expand the powers of the EC executive at the expense of small member states. "I have never put forward these proposals," Mr Delors told a Danish newspaper, "because I do not intend them. On the contrary, the meaning of the Community is that small and big countries are heard with the same interest."

Continued on Page 18
Major's royal squall, Page 9

PepsiCo and General Mills to merge European snack foods

By Philip Rawstorne in London

PEPSICO and General Mills, the US multinationals, are to merge their snack food operations in six European countries, creating a company with annual sales of $640m.

The joint venture – subject to approval by the European Commission – will combine PepsiCo's salty and sweet snack businesses in Spain, Portugal and Greece, with General Mills's salty and savoury snack and sweet biscuit units in France, Belgium and the Netherlands.

The new company will rival United Biscuits' KP Foods for leadership in the $25bn European snacks market in which other main contenders include Bahlsen of Germany, BSN of France and San Carlo of Italy.

No cash is involved in the agreement announced yesterday. PepsiCo will receive a 60 per cent stake and General Mills a 40 per cent holding in the new company.

PepsiCo Foods International will assume responsibility for day-to-day management with the partners naming directors in proportion to their equity. The venture will employ 4,650 people and operate eight manufacturing plants in the six countries.

Investment programmes already under way will soon expand its resources. PepsiCo has earmarked $70m for a new manufacturing plant at Carregado in Portugal. General Mills is building a $55m production facility at Raamsdonksveer in the Netherlands.

Mr Michael Jordan, chairman of PepsiCo's international foods and beverages, said yesterday that the businesses were a perfect fit in terms of geographical markets, technology, distribution systems and product lines.

Products marketed by the venture, such as PepsiCo's Ruffles and Fritos, and General Mills's Graino's and Petato's, will continue to be sold under their existing brand names.

But Mr Jordan added:" The combined strength of PepsiCo's salty and sweet snack production technology and General Mills's expertise in the grain-based snack and sweet biscuit segments will enable us to provide European consumers with a wider choice of products."

Mr Stephen Sanger, executive vice-president of General Mills, said shared research and development would enable the venture to improve product innovation – a key factor in driving market growth.

It is the second joint venture in the European food business for General Mills. The group formed an alliance with Nestlé in 1989 to challenge Kellogg's dominance in breakfast cereals.

For PepsiCo, the deal is another step forward in its ambition to repeat globally the success of its US snack foods business. Its international snacks operations now extend to 24 countries and are the fastest-growing segment of the group's activities.

America recipe, Page 19

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German opposition fears Bonn policy towards east is fostering growth of far right

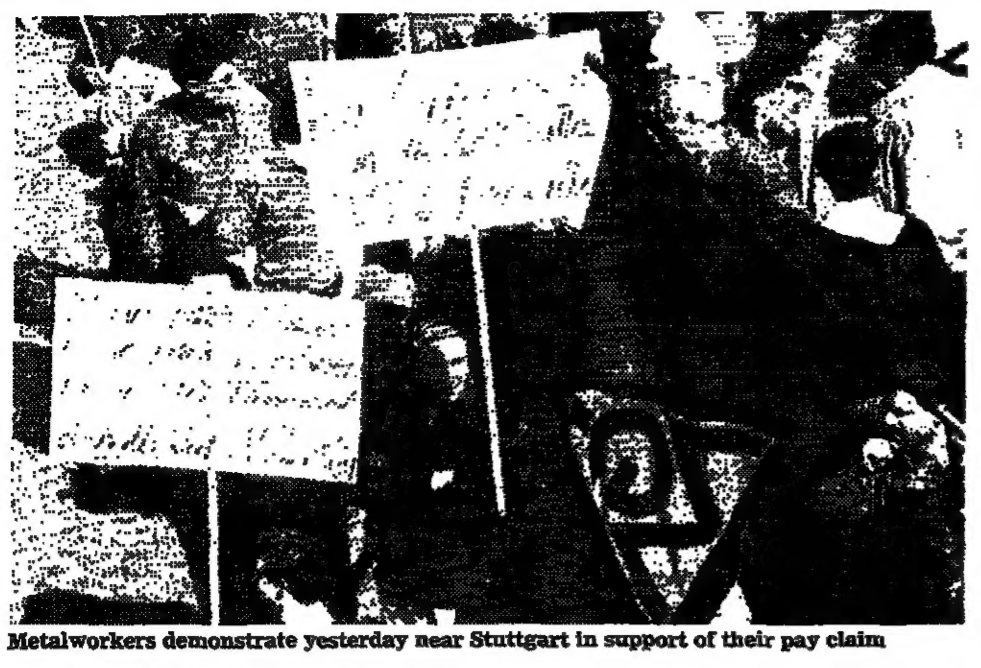
SPD warns of threat to democracy

By Quentin Peel in Bonn

GERMANY'S democratic system will be "threatened" if there is not an early and radical change in government policy towards eastern Germany and the costs of unification, the opposition Social Democrats (SPD) warned yesterday.

Accusing the coalition government of Chancellor Helmut Kohl of "disguising" the extent of economic collapse in the east of the country, of underestimating the costs of recovery, and of lacking any serious ideas to deal with it, Mr Björn Engholm, the SPD leader, announced his own readiness to form an alternative government.

The escalation in the conflict between the opposition and the government appears to be a direct consequence of a clear swing in the latest elections to extreme right-wing parties, and to growing talk of the need for a grand coalition between the SPD and Mr Kohl's Christian Democrats (CDU) to deal with the unification crisis.



Metalworkers demonstrate yesterday near Stuttgart in support of their pay claim

In spite of his blunt criticism, Mr Engholm has agreed to take part in cross-party talks on May 27, provided that they discuss the government's budget crisis, and its entire strategy for reviving the east German economy. At the same time he has ordered his party machine to prepare a complete alternative government programme, to be ready within two months, in an open challenge to the Kohl coalition.

Yesterday the party agreed to call for a new tax surcharge on the higher-paid, and on German enterprises, to reduce the yawning public sector deficit, currently running at DM45bn for central government alone.

The direst warning came from Mr Harald Ringsdorff, chairman of the Social Democrats in the eastern state of Mecklenburg-Vorpommern, who warned that "parliamentary democracy will be in danger" if there was no improvement in the eastern economy. He said evidence from schools in the former east Germany suggested that half the pupils, even in the elite "gymnasium" schools, were listening to parties from the extreme right.

He said that the real level of unemployment meant that one in every two potential workers was jobless in many areas, and he called for a change in the entire industrial strategy of the Treuhand privatisation agency to promote active restructuring of old enterprises.

Franco-German corps takes shape

By Quentin Peel in Bonn and David White in London

FRANCE and Germany will next week finalise the concept and tasks of their planned European defence corps, including an independent command structure, which could run into strong objections by other Nato member states.

A joint Franco-German military delegation yesterday met UK defence officials to try to allay British fears that the attachment of German units to the corps would conflict with Nato planning.

The German embassy in London described the talks as "constructive".

Chancellor Helmut Kohl said yesterday that the planning staff for the corps, intended to be the nucleus of a future fully-fledged European defence arm, would begin its work in July.

According to government officials in Bonn, the two sides have ironed out their principal differences, and will set a timetable culminating in final establishment of the corps in October, 1995.

They said Mr Kohl and President François Mitterrand would sign a treaty on the creation of the corps at a summit at La Rochelle in France on May 21-22.

The chancellor said any other member states of the Western European Union were invited to join the unit, which will be built on the existing Franco-German brigade and is intended to be put under the WEU umbrella.

The German troops in it will also remain assigned to Nato.

The fear of some other Nato members, including Britain, is that the command arrangements for the new corps will dilute the German units' commitment to Nato and interfere in their full participation in Nato exercises.

The German argument is that, on the contrary, the plan will bind the French contingent in the force more closely to Nato forces.

Delors denial on Brussels powers

By David Gardner in Strasbourg

EUROPEAN Commission president Jacques Delors vigorously denied yesterday that he had any intention of trying to increase the powers of the Community's executive at the expense of small member states as the precondition for admitting new EC members.

He made his denial in an interview with the Danish newspaper Politiken in an attempt to scotch rumours before next month's delicately poised referendum in Denmark on the Maastricht treaty.

Mr Delors was reported to have been canvassing changes to make it possible for a bigger Community to function. Decisions are already slow in coming with 12 members in EC institutions set up to accommodate the original six member states.

A smaller Commission, with greater supranational powers but more accountable to the Council of Ministers and the European Parliament, was the central idea Mr Delors is said to have been considering.

The suspicion was that such a Commission would weaken the role of the six-month rotating presidency of the Community.

This would weaken the position of small member states, which hold it just as often as the large, core countries, while the latter would maintain their influence through more prominence in the new executive.

Mr Delors said yesterday that criticism of his alleged intentions was "based on untruthfulness and lies.

"I have never put forward these proposals, because I do not intend them. On the contrary the meaning of the Community is that small and big countries are heard with the same interest."

Earlier this week, Mr Uffe Elleman-Jensen, Danish foreign minister, warned him that the widespread rumours were endangering the outcome of the referendum in Denmark and could cost Mr Delors his job.

European freedom of movement may end at Dover

David Buchan reports on Britain's row with its EC partners on border controls

BRITAIN'S long-simmering dispute with the European Commission over frontier controls is coming to the boil, just in time to embarrass the UK government as it takes over the EC presidency in the second half of this year.

As in so many aspects of Community policy, the issue boils down to a matter of trust. Will Britain trust its partners sufficiently to remove all controls on people and goods entering the UK from the rest of the EC? The short answer at the moment is: no.

The dispute stems from the 1986 Single European Act's commitment to a single market defined, in Article 8a, as "an area without internal frontiers" by the end of 1992.

Britain contends that this freedom of movement only applies to EC citizens, and that, as Mr Douglas Hurd, the UK foreign secretary, stressed this week, "we are justified, indeed have the obligation, to maintain our controls on non-Community citizens".

But, technically, it is impossible to check the passports of non-EC "goats" without also checking the credentials of the EC "sheep".

Last week, the Commission delivered a long-expected legal opinion that Article 8a requires an end to all controls, and was confident that, if it had to take Britain to the European Court of Justice, it would win.

Such a legal battle could take a long time. In the meantime, there are pressing and expensive tasks such as changing the infrastructure at EC airports, if there really is to be a EC-wide free travel zone.

The Commission has been so absolutist in its interpretation of Article 8a, because it fears that if frontier controls remain for just one reason – checks on travellers – they can be used as an easy pretext for the return of checks on goods, for fiscal, security, health purposes. In fact, the UK Customs and Excise is busy preparing, like its counterparts elsewhere in the EC, to move its fiscal checks inland.

Brussels has set aside Ecu400m (£280m) to retrain or re-employ the 250,000 customs agents who will be put out of work. From next year, truck drivers will no longer have to stop at intra-EC border posts (except perhaps on the Danish-German border) to file VAT and excise documents.

There is far less progress in finding alternatives to other border checking activities such as controlling the movement of drugs, explosives, artworks, and hi-tech goods of military potential.

Some problems appear intractable such as how to get rid of the quarantine which the UK and Ireland impose on the import of cats and dogs. Finding alternative ways of checking drugs, explosives and rabid animals, are essential if Britain is to stop controlling the entry of people from other points in the EC.

However, of even greater concern is the need to improve controls on the EC's periphery. There is growing migratory pressure on the EC, traditionally mainly from north Africa, but now from eastern Europe.

All 12 EC states are, in principle, ready to sign a convention "on the crossing of external frontiers" of the Community. But the convention is held up by an Anglo-Spanish dispute about Gibraltar, with the UK wanting its colony treated as part of EC territory, but Madrid insisting that travellers from the Rock to Spain are crossing an "external" frontier. The Portuguese presidency of the EC is trying to broker a deal.

But this "external" convention seems not to be enough for Britain to drop its "internal" guard.

It would set agreed rules for issuing visas to third-country citizens, for which a common policy is provided in the Maastricht treaty. It would lead to the Twelve exchanging information on undesirable aliens. It would also require each state to impose immigration controls on incoming aircraft, ships, cars and buses, which the other 11 could – but need not – rely on.

The convention contains a British-inspired declaration that other (ie internal) controls can be maintained.

The Dublin convention on the treatment of asylum-seekers has also been signed by the Twelve, though only ratified by Denmark and Greece.

Absent from this convention is the trust apparent in the 1990 Schengen treaty setting up a free travel zone between Germany, France, Italy, Spain, Portugal, and the Benelux countries. (Greece now wants to join Schengen.)

This far-reaching pact provides for elaborate co-operation between the eight countries' police and immigration forces. But it has not proved quite the trail-blazing treaty it was intended to be. Only France has ratified it, and it has run into difficulties in the Dutch parliament.

None the less, in Brussels' view, Britain remains the main obstacle to a frontier-free Europe. True, Denmark is dithering about dropping controls because of its passport union with Nordic countries. But this will be eased once they join the EC. Ireland will probably follow the UK lead.

Given Britain's island geography, it is "plain common sense", Mrs Margaret Thatcher, the former UK leader, used to say, for it to keep controls. But if other countries show they can enforce proper controls on their parts of the EC's external rim, it will become plain common sense for British officialdom to abandon Dover.

Russians to take over N-forces

By Dmitry Vkok in Moscow

THE RUSSIAN government plans to take over at least part of the Commonwealth of Independent States strategic nuclear forces, the deputy head of the CIS general staff, Lieutenant-General Victor Barynkin, said yesterday. He did not specify what proportion, saying this had yet to be negotiated. Gen Barynkin said President Boris Yeltsin had approved the plan last week.

This decision runs counter to a CIS agreement last December under which all former Soviet strategic nuclear forces were to remain under CIS joint command.

Russia also wants to create its own missile early warning system. Gen Barynkin said the existing system could be "full of holes" once Azerbaijan and Ukraine took over radar stations on their territory.

Machine tool industry holds EC crisis talks

By Andrew Baxter

LEADERS of Europe's recession-torn machine tool industry are holding crisis talks with the European Commission in an attempt to win agreement on the first EC-wide industrial policy for the sector.

The initiative by the $19bn European sector reflects fears that the recession has seriously damaged the competitiveness of a strategically important industry. Output fell by 8-10 per cent last year, due to the near-total collapse of east European business and a sharp decline in the US and western European markets.

The downturn has exposed the financial weakness of a fragmented industry of 1,500 producers, and raised questions about the survival of several leading companies.

The talks are being spearheaded by Cecimo, the umbrella body for 12 European machine tool associations, which earlier this year submitted to the EC a document outlining the sector's plight and listing a raft of short- and medium-term measures.

Cecimo wants an EC framework programme to revive manufacturing investment by Europe's mechanical engineering sector, through measures such as tax changes, faster depreciation, capital grants and lower interest rates.

Financial and fiscal matters are still the responsibility of EC member states, but Cecimo is keen that individual countries can select from a range of initiatives which will not be blocked by the EC.

Medium-term measures include better financial and fiscal incentives to carry out cross-border mergers, and improved access to EC research and development programmes for the industry's predominantly small and medium-sized companies.

But the organisation also wants, as a priority, the creation of a "European pool" for machine tool control systems, motors and drives to challenge the supremacy of Fanuc, the Japanese producer.

Cecimo's approach to the EC has been encouraged by the Bangemann paper of November 1990 which laid out a new industrial policy strategy for the Community. The group is hoping for an EC communication on the mechanical engineering industry in the second half of this year, in which the problems of the machine tool industry would be addressed.

Protests grow in Dushanbe

MOSLEM and democratic opposition demonstrators in Tajikistan, describing government concessions as inadequate, demanded the resignation of President Rakhmon Nabiyev yesterday, Reuter reports from Dushanbe.

Thousands packed into a central square in the capital Dushanbe, keeping up pressure on Mr Nabiyev after seven weeks of unrest in which more than 100 people have been reported killed in the former Soviet republic bordering China and Afghanistan.

Many voiced discontent with Monday's agreement between opposition leaders and Mr Nabiyev, a former Communist Party boss elected last November, on forming a coalition government and creating an interim legislature until new parliamentary elections are held next December.

The influential Tajik poet Bozor Sabir captured the mood of the people with a rousing speech.

"Most of you are not happy...and I am not happy. Even before the casualties, I called on Nabiyev not only to resign but to leave the republic," he said.

Giscard d'Estaing: broke ranks with the Gaullists and advocated a Yes vote

Divisions ease path in France for EC treaty

By Ian Davidson in Paris

DEEP divisions in the ranks of France's opposition conservative parties yesterday seemed to promise the government a comfortable majority on its bill to revise the French constitution, as the prelude to ratification of the Maastricht Treaty on European union.

The leadership of the right-wing Gaullist party put forward four amendments to the bill in the hope of being able to present a united front with the centre-right UDF umbrella grouping.

But former President Valéry Giscard d'Estaing, leader of the UDF, swung the prospects for the vote by breaking ranks with his ostensible Gaullist allies, and advocated a Yes vote in Parliament.

Ultimately, almost all of Mr Giscard d'Estaing's party, and all of the Centrists, were likely to vote with the government because they are in favour of European integration in general and of the Maastricht Treaty in particular.

Mr Giscard d'Estaing cut through the Gaullists' procedural manoeuvering, which was set to delay a vote until late last night or today by dissociating himself from two of their four amendments.

He declined to join their opposition to giving residents from other Community countries the right to vote in French local elections. He also dismissed the Gaullist demand that the constitutional revision should assert France's right of veto in the Community, by virtue of the so-called "Luxembourg Compromise".

● The Folketing yesterday approved the Maastricht treaty on European Union by 130 votes in favour to 25 against with one abstention, Hilary Barnes reports from Copenhagen. The treaty will be submitted for approval to a popular referendum on June 2. The referendum result will be binding on the Folketing.

Opinion polls indicate that the popular vote will be much closer than the parliamentary vote.

Greece cuts taxes in fiscal reform package

By Kerin Hope in Athens

THE Greek government yesterday launched a wide-ranging fiscal package intended to boost revenues through broadening the tax base and curbing tax evasion.

The new legislation, tabled in parliament, is also expected to promote growth by streamlining corporation tax, at present hemmed in by complex regulations which serve as a disincentive to investors, finance ministry officials said.

Reduced income tax rates introduced in the bill will at first cause a sharp drop in revenues, estimated at about Dr50bn ($260m) for 1992.

The top income tax rate will fall from 50 to 40 per cent, while the threshold for paying income tax rises to Dr1m, excluding junior civil servants and other white-collar workers. In 1993, the top income tax rate will drop to 30 per cent.

Tax on corporate profits, currently between 42 and 50 per cent, is reduced to a single 35 per cent rate and companies are required to revalue fixed assets every four years.

Stricter penalties for tax evasion include lifting of bank confidentiality, confiscation of professional licences and jail sentences for major offenders.

Greece's most notorious tax evaders are self-employed professionals such as doctors and lawyers who avoid issuing receipts for their services. Under the new system, doctors must keep registers of their patients and lawyers are to be taxed under a co-efficient worked out with their union.

The black economy in Greece is estimated to have grown from 25 to 40 per cent of gross domestic product over the past decade, indicating that the government loses more than Dr400bn in revenues every year.

Hopes of making the fiscal reforms effective rest on a new computer system now being installed, with the capacity to cross-check tax returns nationwide. By mid-1993, all Greek internal revenue offices should be computerised.

Creditor banks press for Polish debt talks

By Christopher Bobinski in Warsaw and Anthony Robinson in London

POLAND'S commercial bank creditors want to start "constructive negotiations as soon as possible" on re-scheduling the country's $11.8bn bank debt. However, Mr Jeffrey Stockley, head of a working group of the London Club of official creditors, confirmed in Warsaw yesterday that talks would not resume until the government reached agreement with the IMF.

Poland is seeking a 50 per cent reduction in its commercial bank debt to match the 50 per cent cut in its $33bn official debt agreed last year with the Paris Club of western governments.

Mr Andrzej Olechowski, acting finance minister, said that final consultations with the IMF would take place next month. He himself resigned last week over a parliamentary vote for higher government spending which puts an IMF deal in doubt.

Officials taking part in the IMF talks said that an agreement with Poland could be completed by the end of July, provided the IMF board accepted a Polish letter of intent. One of them said that a positive outcome depended on the Polish authorities being able to demonstrate their ability to keep the budget deficit below Zl 65,500bn ($4.7bn) or 5 per cent of GDP.

On Monday Mr Olechowski said that such a deal might be possible if the government could delay spending the extra $2bn on public sector pay and pensions approved by parliament last week until 1993. Before any agreement can be signed, however, parliament must accept this year's budget in a crucial vote expected within the next fortnight.

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Co-operation produces better results than coercion, says a World Bank report intended to fuel debate at the Earth Summit next month

Environment better served by free-trade carrot than protectionist stick

David Dodwell examines a study on pressure in the developed world for punitive action on environmental grounds

PUNISHING poor countries through trade bans is unlikely to help protect the global environment, the World Bank concludes in a report published this month.

While free trade is no panacea, co-operation will produce better results than coercion, it says. Developing countries, in particular, should not be forced to take action they cannot afford, such as stricter environmental legislation. "In the case of worldwide global problems like global warming or in the case of regional problems like acid rain, there is no viable alternative to international co-operation," says Mr Lawrence Summers, vice-president and chief economist, in his foreword to the report on trade and the environment.

The study focuses on the pressure in the developed world for trade bans and other punitive action against countries whose environmental regulation falls below the standards of other countries. Blanket harmonisation of environmental regulation, sought to ensure fair competition between exporters, is inappropriate and runs counter to accepted principles of international trade, it argues.

The report, intended to fuel debate at the Earth Summit in Rio de Janeiro next month, acknowledges that the failure to take proper account of environmental costs has led in some cases to environmental degradation. It examines six broad themes: how trade and environment policy are linked; whether "dirty" industries migrate in the face of higher environmental standards; whether higher standards hurt competitiveness; whether liberal trade, and the quest for economic growth underpinning it, necessarily results in degradation of the environment; how protectionists have captured environmental issues to aid their cause; and how international trade co-operation, including measures aimed at forcing harmonisation of environmental policies, can help to protect the environment.

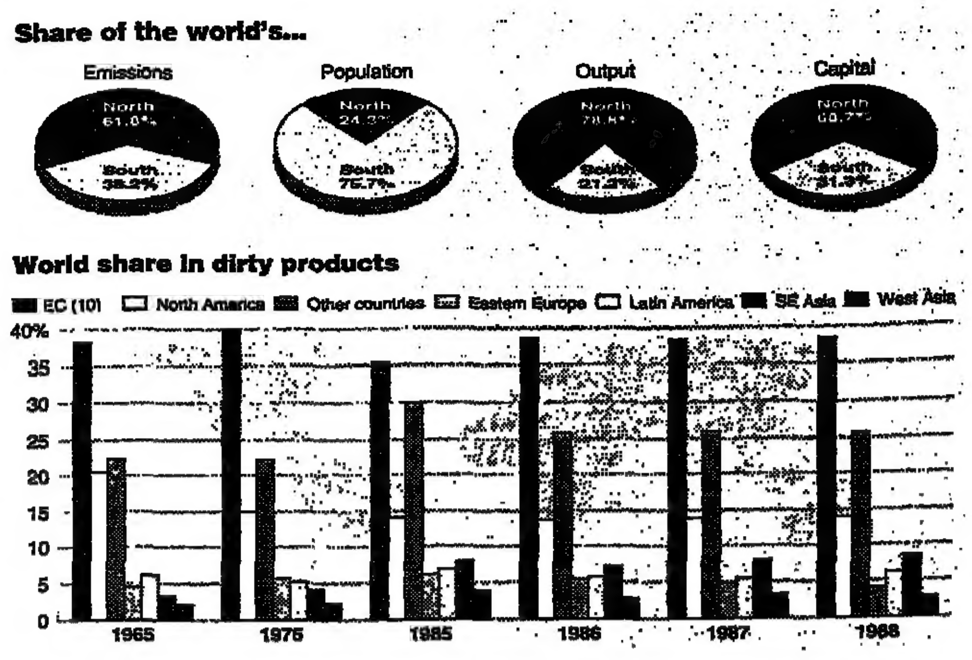
Attention should be paid to sustainable development, the use of unexploited natural resources, energy consumption, the possibility of environmental accidents, and threats to the "global commons" including the oceans, the ozone layer and the world's forests, it says. Among its main conclusions, the report says:

- Companies have no environmental grounds on which to demand tariff protection against imports from countries with less rigorous environmental rules. Nor are there good economic grounds, since the cost of meeting environmental standards account for such a small proportion of total costs.
- There is no evidence that "dirty" industries migrate to countries because their environmental standards are lax, and there is scant economic sense in doing so.
- International harmonisation of environmental standards is not necessarily a sensible aim, and may be used by governments to delay domestic environmental reform. In developing countries where poverty alleviation is a greater priority than environmental protection, different environmental standards may be valid.
- Trade bans, punitive tariffs or other forms of coercion are unlikely to be effective: "Countries coerced into action by threats are unlikely to comply either very thoroughly or for very long, leaving the environmental outcome in doubt," says Mr Summers. "When consumption in the petitioning country is 20 times that of the country asked to bear additional costs for environmental improvement, or when countries are asked to forgo the benefits of their natural resources, equity more than economic logic suggests that threats to reduce poor countries' incomes further by trade restrictions are inappropriate."

A recurring theme in the report is the "strong preference" governments show for "direct command and control measures, which come far down in the efficiency hierarchy" when it comes to tackling environmental problems. Governments "have omitted to give adequate consideration to the justification for measures they have adopted, or to the nature of the options available", the report concludes.

Confirming the findings of a report by the General Agreement on Tariffs and Trade (Gatt) published in February, the World Bank accepts that trade measures may be justified as environmental policy "in very narrowly defined circumstances", but that "there is almost always a better way of meeting environmental objectives." It rejects the "deep ecology" view that environmental assets such as rain forests or endangered species have infinite value. From this, it follows that countries have a right to decide what value they give to environmental quality, traded against the need to provide jobs, relieve poverty, provide proper health care and education. "Environmental standards and pollution abatement and control activities will be different among countries, and there is no valid presumption in favour of uniformity or harmonisation," says Mr Patrick Low, the report's editor.

While the report challenges the claim that a failure to harmonise environmental standards will result in "dirty" industries migrating to countries with lax standards, it concedes that the amount of



"dirty" industry output in developing countries has grown steadily over the past two decades. It suggests, however, that this has more to do with the stage of industrialisation of many developing countries than any other factor.

Studies in Chile and more widely across Latin America also contradict the claims that free trade leads to environmental degradation and that industries migrating to developing countries seek comparative advantage in their lower environmental standards.

"The more open an economy, the more rapidly clean technology is adopted and diffused", it says. It also suggests that migrating companies have imported their technologies with them, rather than exploited lower local environmental standards. Several reasons are given for this: companies have become fearful of liabilities arising in the event of environmental accidents, and are sensitive to the demands of "green" consumers in export markets.

They economise by using common production standards in all plants, wherever they are based, and find it cheaper to start new plants with state-of-the-art technology rather than face the comparatively expensive prospect of "retrofitting" ageing plant. They also have to anticipate that developing countries will over time demand more stringent environmental standards.

The report attacks the case for protecting industries forced to meet high environmental standards because research shows the costs of pollution abatement and control to be small. Even in the US, which has generally high standards, these costs add up to an average 0.54 per cent of a company's overall costs. Even in the cement industry, which pays more for pollution control than any other, it accounts for just 3 per cent of costs.

It argues that any attempt in the US to introduce a tax to "level the playing field" would be "strongly suggestive of a protectionist reflex, with little or no environmental justification". It alerts environmentalists, who have often allied with protectionists in trade issues, that this provides a good example of how protectionist interests have no concern for better environment standards – only for the elimination of competitive disadvantage.

"Trade restrictions are an economically costly means for one country to use in trying to induce another to [take proper account of pollution costs], and they do not guarantee success in terms of the environmental outcome."

The report examines options to compensate developing countries undertaking environmental protection – including cash transfers, debt-for-nature swaps, technology transfers and sanctions for nature. It concludes that only the transfer of clean or pollution-reducing technology is without adverse side effects.

**International Trade and the Environment, edited by Patrick Low. Available from the World Bank.*

The World Bank's annual World Development Report, to be published next week is dedicated to a study of environmental issues, and will be examined in the FT on Monday.

Protectionist countries have become pollution havens

SCANT evidence exists that pollutive industries migrate to countries where environmental standards are lax, the study concludes. Closed, protectionist countries have become "pollution havens", it says, contradicting environmentalist views that economic growth and free trade lead to environmental degradation.

The report shows developing countries have seen rapid growth of pollutive industry, due to the stage of industrialisation these countries are going through, rather than to investment targeted to escape tough environmental rules. Pollutive industry, those that spend heavily on controlling or treating resulting pollutants, is still concentrated in First World countries.

Industrial countries account for three-quarters of trade in the products of "dirty industry", with the EC accounting for 40 per cent. While North America has in the past 25 years cut its share of environmentally dirty goods by one third from 20.5 to 14 per cent, the rapidly industrialising countries of south-east Asia have more than doubled their share from 3.4 to 8.4 per cent. Concentrations of dirty industry are greatest in eastern Europe, where they accounted for more than a quarter of exports: "There is clear evidence of a relative decline in the importance of these products in industrial countries' exports, while increases are observed in eastern Europe, Latin America and West Asia."

The report traced no evidence of investment decisions influenced by variations in environmental standards. Research in Chile, which has no controls on industrial emissions and is open to trade and foreign investment, shows the opposite: "Openness to foreign investment and absence of barriers to technology imports encourage multinationals to invest in Chile, and ensure domestic producers will have to compete with them. Openness in Chile is associated with, if not contributing to, the opposite of the pollution haven effect." Companion studies of Latin American countries show more open economies end up with "a cleaner set of industries": "Developing countries selling their environment cheaply have little to offer investors, against those offering a cheap, efficient labour force, to take one example".

By contrast, east European protected economies show "the extravagant carelessness with which the environment has been treated there". Less than 5 per cent of Poland's river water is drinkable, with 40 per cent so polluted that it cannot even be used in industry. Czechoslovakia, east Germany and Poland have nitrous oxide emissions twice those of France, Italy or west Germany, with sulphur dioxide emissions 10 times higher.

"Environmental degradation of eastern Europe is mainly explained by political suppression of consumer choice."

Four reasons are given why dirty industry migration is not a matter of environmental concern:

- Scant evidence exists of such migration; costs of compliance with environmental regulations are low as a proportion of total costs, so do not influence location;
- Legal liability and reputation in a company's home market weaken the temptation to cut environmental costs in a world of rising environmental standards; companies anticipate rising environmental standards in developing country markets by introducing state of the art technology in the first place.

To test whether tariffs ought to be used to induce countries to raise environmental standards, the report examines US industry demands for a "pollution tax" on Mexican exports which are subject to laxer environmental regulations. It finds total pollution abatement costs across US industry amount to 0.54 per cent of total costs. The cement industry carries highest costs, at 3 per cent. The report concludes: "It is not obvious that the threat or imposition of trade restrictions will have a positive effect on environmental quality." The US policy would be flawed because it would be "driven by considerations of competitiveness, not environmental quality". That would amount to "bad environmental policy and bad trade policy".

Tale of the sheep and a grizzly bear

A GRIZZLY bear may be bad news to sheep farmers, but an environmental asset to the wider public. Does a government kill the bear, or compensate farmers for lost sheep? If it kills the bears, are other governments entitled to protest by banning imports of its sheep meat? Gatt, which polices world trade, believes countries should have freedom to decide how to resolve their environmental problems, and other countries are wrong to use trade instruments against them if they disagree.

This challenge to the use of extra-territorial sanctions to force "good" environmental practices on other countries has aroused anxiety that a lack of international agreement on environmental standards and practices will make it a "pig in the middle" in trade disputes. The US "dolphin-tuna" controversy was a first, but others are pending, such as Swedish and Swiss bans on imports of chickens raised in cages.

The World Bank provides support for Gatt's role: "By promoting the use of more appropriate environmental policies that address the source of a problem directly, Gatt is very much 'for the environment'. Gatt rules can protect [developing countries] from new forms of protectionism under the guise of environmental policy, reinforce the respect of sovereignty in trade relations, and shift emphasis from the use of trade sanctions to negotiations. The rule-based multilateral system protects the interests of small countries against power-based unilateral policing by large countries."

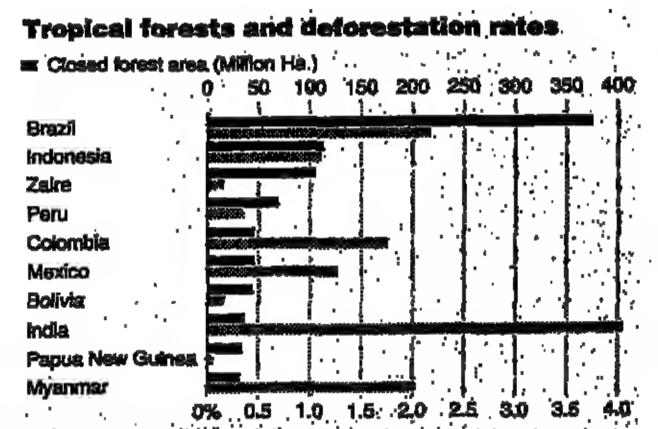
Other ways of pressing countries to change environment policies could include product labelling and financial or technological transfers: "Trade forums seem to be the wrong places to address environmental issues. The source of the problems is not in trade, but in the need to [take proper account of] environmental costs in prices, to address bad policies, and clarify property rights."

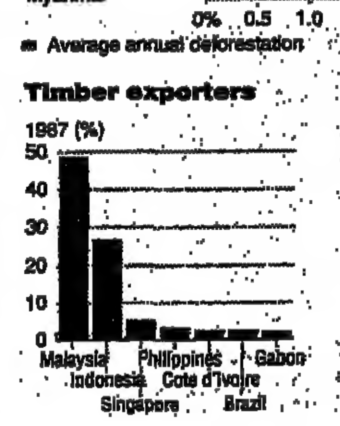
Hardwood curbs could deplete forests

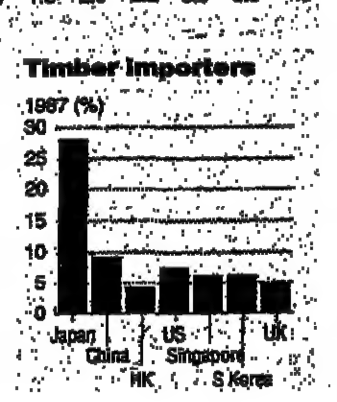
CURBS on world trade in tropical hardwood could result in more forest depletion rather than conservation, Mr Carlos Alberto Primo Braga, economist in the World Bank's International Trade Division, says.

In a study of how trade policies have affected forest use in Brazil and Indonesia, he argues: "Use of export restrictions visited additional environmental degradation on Indonesia's wet tropical forest than a proper resource management programme involving a tax on all timber at the logging stage would have done." The findings challenge environmentalists who have fought for a ban on trade as a main plank in their push to protect the world's forests.

Mr Primo Braga sets out the rate forests are being lost and shares environmentalists' concern over the plight of tropical wet forests. Forest depletion has already significantly affected the economy of some developing countries, like the Philippines, Nigeria and Ivory Coast, he notes. If the pace of deforestation continues unchecked through the 1990s, the number of net exporters of forest products among developing countries would fall from 33 to 10 by the year 2000.







World Bank studies show that about 60 per cent of depletion is due not to trade but farming and cattle ranching, with the balance split between road building, urbanisation, fuelwood and logging: "Activities geared to the domestic market...are the main players in the deforestation process." His case is vividly illustrated in Brazil, where commercial logging accounts for less than 1 per cent of GDP, and for under 1 per cent of export revenues. Much of this is concerned with coniferous and eucalyptus logging in the south of the country, rather than tropical forests. Of total hardwood logging, 10 per cent goes on to the export market, the rest being used inside Brazil.

As a result, trade measures against Brazil's exports are useless. They have no influence on the deforestation process, and they lull environmentalists into a false sense that progress is being made. Instead, they should be focusing on the core problems: poverty, development projects, migration, and government subsidies for logging and cattle ranching. The error of trying to use trade measures to slow deforestation is shown differently in Indonesia, where hardwood products account for 14 per cent of export earnings, with over 40 per cent of production exported.

Indonesia's outward orientation is not just due to government policies, Mr Primo Braga argues. Indonesian hardwood is more competitively priced, since its forests have higher densities of commercially valuable trees; the light colours of Asian hardwoods are preferred by consumers in developed countries; access to forests is easier; and it is closer to the world's main importer, Japan. Indonesia introduced trade curbs first on logs, then sawn wood, under a strategy of encouraging higher value-added production in the country. The result: intensified depletion of forests, since local processors using inefficient machinery need more logs for every unit of output than counterparts in Japan or Canada.

"If Indonesian sawmills and plywoods were operating at the world technological frontier, the same production of sawn wood and plywoods achieved in the second half of the 1980s could be reached with an annual economy of 3.3m cu m of logs." This would have cut annual log harvests by 10 per cent. A ban on trade in tropical hardwood would tend to depress its price. An import ban would "assign a lower value to forests, and (encourage) less careful management of the resource, providing greater incentives to convert forest land to other uses."

Baptist-Bootlegger link-up 'likely to grow'

THE World Bank calls them Baptists and Bootleggers - the environmentalists and protectionists in alliance against free trade as a cause of environmental problems.

The alliance is likely to grow, the bank says, because environmental groups believe, mistakenly, that trade weapons can achieve higher environmental standards internationally, and industries have found they are more likely to win protection when they wed themselves to an environmental cause.

Environmentalists are wrong to prefer trade weapons because these usually involve tariffs or quota arrangements, the cost of which fall not on the polluter, but the victim - the consumer. Instead of the "victim pays principle", governments should stick to the "polluter pays principle", which argues for taxes on polluters, and subsidies to induce improvement.

Such measures are often unpopular with voters, so governments tend to choose trade weapons such as tariffs as an easy option, even though they are a "second or third best" solution to environmental problems, the bank says. It challenges the basis of the alliance, saying environmentalists aim for effective environmental controls, while protectionists want to eliminate competitive differences regardless of whether this involves a levelling-up or levelling-down of environmental standards.

"Producers opposed [to free trade] increasingly find themselves on the defensive, intellectually and politically. They need to find new allies. Defending trade curbs on the grounds they are necessary to protect environmental quality fills both needs."

European groups urge Japan to improve investment climate

By Robert Thomson in Tokyo

JAPAN must improve direct investment conditions for foreign companies or face "increasingly strong" political pressure to redress the present imbalance in investment flows, according to a paper produced for European companies.

Japanese investment in Europe had been more than 20 times larger than European investment in Japan in the past decade, the European Business Community (EBC), a Tokyo-based advisory committee to the EC, said in a paper. Tokyo had to ensure European companies had equal access to the Japanese market.

"If such opportunities are not created, this problem, which today has mostly commercial and economic dimensions, will develop an increasingly strong political dimension as well," the EBC said.

The paper focuses on the manufacturing and distribution sectors. It came as the Japan External Trade Organisation (Jetro) released a report suggesting the pace of Japanese manufacturing expansion in Europe is slowing.

At the end of January, 721 manufacturing companies had operations in Europe, an increase of 69 over the year, against an increase of 132 the previous year. About 21 per cent of those companies procured all of their components in Europe, up from 15 per cent a year earlier, while 34 per cent had Europeans as chief executives, against 31.6 per cent in January 1991.

European companies listed five conditions hindering investment in Japan: high cost of land; a relatively long wait for returns on investment; high corporate taxes; problems of attracting well-qualified Japanese staff; and "extreme difficulty" in acquiring Japanese companies.

EBC officials said Japanese mergers and acquisitions abroad last year totalled 294, while only 18 foreign transactions took place in Japan.

There were no legal obstacles to acquisitions but the environment "was not conducive to foreign investments".

Ericsson in mobile phone deal

ERICSSON, the Swedish telecoms group, said yesterday it has acquired a SKr700m (£66.6m) order from Tokyo Digital Phone Company to supply, install and initiate a cellular mobile phone system for the Tokyo metropolitan area, Robert Taylor reports from Stockholm.

The contract will initially cover 150,000 subscribers when in operation in July 1994.

Ericsson said a contract for further extensions will be negotiated with Tokyo Digital Phone. Talks had already begun to build networks in other parts of Japan. Japan now had 1.25m cellular phone subscribers, expected to reach 13m by the year 2000.

Accountancy firms to expand China ventures

By Andrew Jack

ARTHUR ANDERSEN and KPMG Peat Marwick, the accountancy firms, plan to expand their joint venture networks in China by opening offices in at least two other cities within the next year. Both firms are considering developing operations in Shanghai and Guangzhou to complement their first joint ventures approved by the Chinese authorities last month.

Mr Eoghan McMillan, Arthur Andersen managing partner for Hong Kong and China, said the venture was considering opening branches in Shanghai and Guangzhou, possibly also in Shen Zhen. Peat Marwick signed documents formally approving a joint venture with a firm of certified public accountants in Beijing to be called KPMG Peat Marwick Huazhen on April 25 after two years' discussions with the Chinese. Arthur Andersen finalised a similar deal two days later, to be called Arthur Andersen Hua Qiang.

The ventures have allowed foreign accountants to certify statutory audits on companies operating in China for the first time. Certification is required for tax returns and enterprises joining the Chinese stock market.

Mr McMillan said Arthur Andersen could be employing more than 300 people in China within three years. Under the agreement, any profits within five years will be reinvested rather than distributed to partners. Both firms already have consultancy arms in Shanghai and Guangzhou which will continue to operate.

Schindler seeks to revise terms of Jardine deal

By Ian Rodger in Lucerne

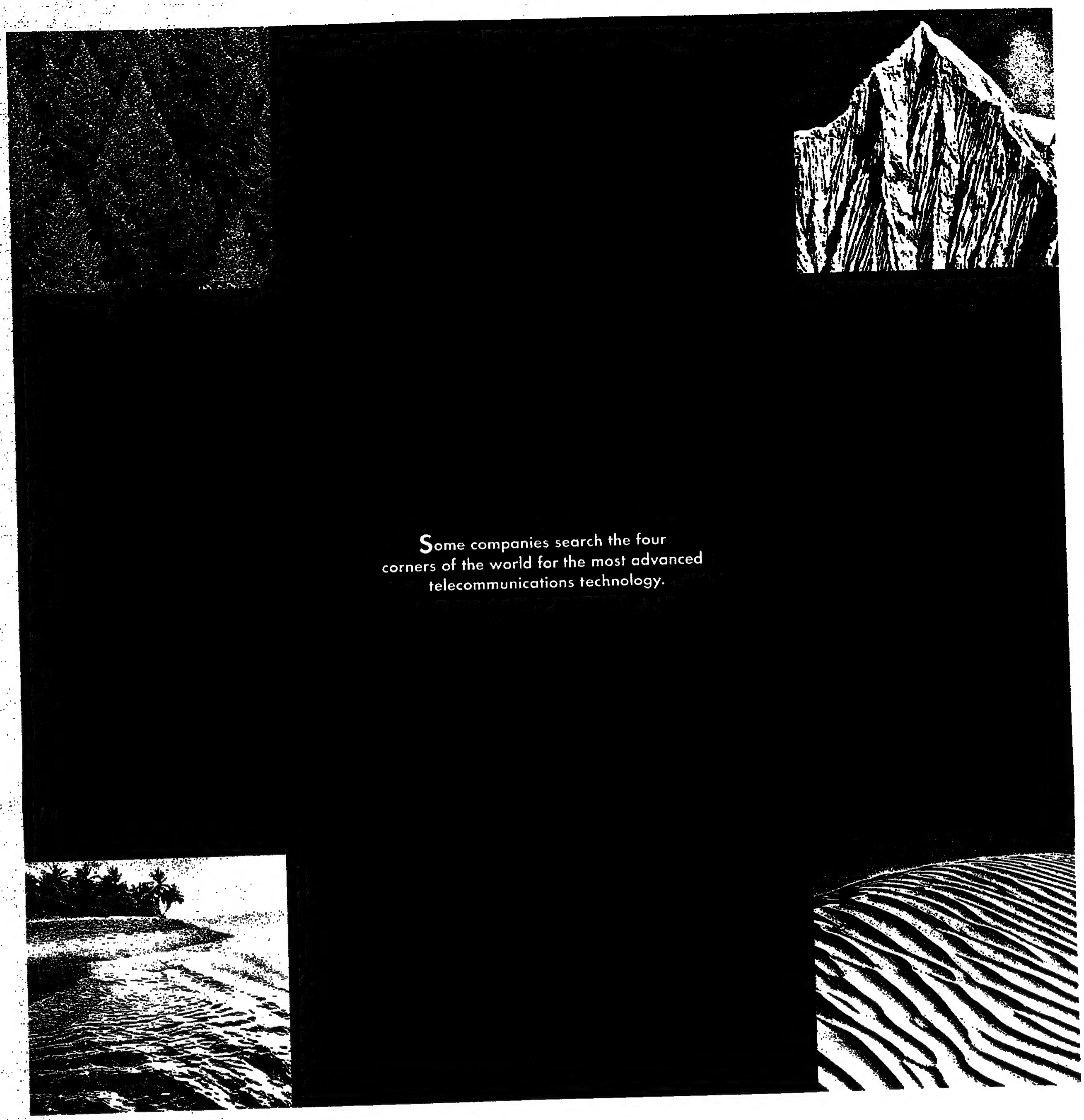
SCHINDLER, the world's second biggest lifts and escalators group, is seeking substantial revisions to the terms of its joint ventures with Jardine Pacific of Hong Kong for serving far eastern markets.

Mr Bruno Dönni, chief executive of Schindler's lift and escalator division, said the terms of the joint ventures, set up in 1974 and 1980, now appeared unfair to the Swiss group, and it was determined to change them this year.

"Our target is to take over the companies for ourselves, but we are open to leave a minority position for Jardine," he said.

Mr Dönni said Jardine was not eager for change, but Schindler was trying to explain its position.

Jardine has a 60 per cent stake in Jardine-Schindler, which sells and services Schindler products in Korea, Taiwan and countries in the Asean trade grouping. It also has minor stakes in Schindler ventures in China. Annual sales of these companies are about SFr300m (£115m).



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UK and Vietnam sign deal on refugees' return

By Simon Davies in Hong Kong

THE GOVERNMENTS of Britain and Vietnam yesterday signed an end to Hong Kong's 13-year struggle to cope with an inflow of Vietnamese boat people, by agreeing to the forcible repatriation of all those found not to be political refugees.

Mr Alistair Asprey, Hong Kong's secretary for security, estimated the overcrowded camps which currently house about 56,000 illegal Vietnamese immigrants could be emptied in three years.

The agreement, signed in Hanoi yesterday morning, is the final stage in the October 29 statement of understanding between Britain and Vietnam. This permitted the forcible return of all new non-refugees and of so-called double-backers who had returned to Hong Kong after being voluntarily repatriated to Vietnam.

Lord Wilson, Hong Kong's outgoing governor, welcomed the agreement. "What we really want is that as many people as possible should volunteer to go back to their homes and I hope that this new stage in the process of reaching agreement with Vietnam will encourage that," he said.

The news was broken to the inmates of the 10 detention centres in Hong Kong last night, but there were no immediate outbreaks of violence.

A concern remains that the government will have to use force in the repatriation of some boat people who have waited in appalling conditions for almost four years rather than return to what they claim will be inevitable persecution. Mr Asprey would only say that everyone would have the opportunity to return under conditions of "order, safety and dignity".

There has already been a significant fall in the number of boat people arriving in Hong Kong since the October accord. This year there have so far been only seven arrivals, compared with 3,920 in the corresponding period in 1991.

This is thought to result from the October agreement and to a reduction in the amount payable to those who volunteered to return. Mr Asprey said he did not consider it was a reaction to the riots that killed 21 Vietnamese in a refugee camp in February.

He said the agreement would be likely to encourage a rapid increase in the number of Vietnamese volunteering to return.

At present there are 22,466 boat people who have failed the screening process and will be forced to return to Vietnam. There are a further 29,562 which have yet to go through the screening process, while there are only 3,434 designated refugees remaining.

"One of the main objectives is to make it clear there is no future for them in wasting their lives in the camps, in the forlorn hope that they will get access to resettlement. That will not happen," he said.

Mr Asprey emphasised that neither Hong Kong nor Britain had agreed to any financial assistance connected with the agreement with Vietnam. However, the European Community has recently started a $120m programme to aid re-integration of returnees.

Australia to reduce immigrant numbers

By Kevin Brown in Sydney

AUSTRALIA, one of the world's most popular destinations for European and Asian emigrants, yesterday announced plans to cut immigration by 27 per cent next year to about 80,000 people.

Mr Gerry Hand, the immigration minister, said Australia would also require more skills and a higher level of competence in English from applicants other than refugees and close relatives of earlier migrants.

The changes follow an anguished debate over the historically high level of immigration in the wake of an 18 month recession which has increased unemployment to 10.4 per cent.

Immigrant organisations argue that high immigration benefits Australia by increasing economic activity. However, the government has accepted trade union arguments that immigration has worsened unemployment during the recession.

Mr Hand said the level of immigration for future years would be decided in the light of "national economic and social objectives". He said the intake was likely to average 80,000 for several years.

The cut was welcomed by Senator Peter Walsh, a prominent campaigner against high immigration, who urged a further cut to a maximum of 60,000 people in 1993-94.

Immigrant organisations said the increased focus on English language skills was discriminatory, and would discourage applications from talented migrants from non-English-speaking countries.

Fidel Ramos, closely trailing Miriam Defensor-Santiago in the elections, arrives at his headquarters yesterday

Accusations fly after Philippines poll

By Victor Mallet in Manila and Jose Galang in Tarlac

THE PAINFUL slowness of vote-counting following this week's Philippine elections prompted a flurry of accusations of cheating yesterday from politicians who appeared to be losing.

Police defused three bombs aimed at disrupting electricity supplies around the capital Manila and which may have been intended to disrupt the counting of ballots from the elections on Monday. Earlier, bombs had caused slight damage to electricity installations on Monday night.

Right-wing military rebels of the Reformed the Armed Forces Movement (RAM) issued a statement to the media accusing the incumbent administration of President Corazon Aquino of organising the bombs to manipulate election results in favour of her preferred candidate, Mr Fidel Ramos, former defence chief.

"Let this serve as a warning that our forces beginning at 6pm today will be in a state of readiness to move against the Aquino government should it persist to manipulate election results by any means," said the RAM statement, which was dated May 13.

Mr Ramos stood by Mrs Aquino through six coup attempts. Three were led by RAM, including one in December 1989 which frightened potential foreign investors and nearly toppled the government.

Unofficial counts last night of a fraction of the 27m votes cast gave the lead in the presidential race to Mrs Miriam Defensor-Santiago, a sharp-tongued lawyer who has campaigned against corruption.

Close behind were Mr Ramos and Mr Eduardo Cojuangco, Mrs Aquino's estranged cousin and a wealthy associate of the late dictator Ferdinand Marcos.

Mrs Imelda Marcos, widow of Ferdinand and herself a candidate, asked for a halt to unofficial vote-counting after it became clear she was trailing in the presidential race and said it was possible the media were being "used" by "dubious elements".

Some officials have expressed fears that a wave of protests from losing candidates could create a crisis akin to that in 1986, when Mrs Aquino ousted Mr Marcos in an uprising sparked by protests against massive election fraud.

Mrs Santiago said yesterday that she was jubilant at her early lead. If she won, she said, it would deal a blow to the Philippines' oligarchic political system based on influential families.

Bilateral accords 'vital for Mideast progress'

By David Buchan in Brussels

A POLITICAL breakthrough in bilateral negotiations with Israel is vital for a wider discussion on the Middle East economy to make progress, a Palestinian delegation said yesterday after a two-day session of the 35-nation working party on regional co-operation.

Professor Youssef Sayigh, the Beirut-based leader of the Palestinian delegation, criticised Israel for not attending the meeting because Palestinian representation was not confined to those from the West Bank and Gaza. The EC, which chaired the working party, made the same criticism to Mr David Levy, Israel's foreign minister.

The Brussels meeting was also boycotted by Syria and Lebanon, which are first demanding progress in their bilateral talks with Israel. Another Palestinian delegate, Mr Khalil Hindi said he understood the attitude of the Arab absentee countries, but "the pros of attending outweight the cons". All participants agreed that the multilateral discussions on regional co-operation would only blossom if and when there was a political breakthrough in bilateral Arab-Israeli talks.

Mr Samir Hulaileh, a Jerusalem economist, admitted Palestinian disorganisation was partly to blame for not taking more advantage of the EC scheme to promote Palestinian fruit and vegetable exports to the Community. Israel was also frustrating such exports with systematic searches of Palestinian farm trucks.

Indian MPs angry over US ban on Russian rocket deal

By K K Sharma in New Delhi

MEMBERS of the Indian parliament strongly attacked the US yesterday over a ban on exports to the Indian Space Research Organisation (Isro) announced in Washington.

Mrs Margaret Alva, the minister for public grievances, assured parliament that the government would do everything "to protect national honour, dignity and choice" in face of the US ban on trade and technological dealings with Isro. She said the government "would respond in an appropriate way".

The Bush administration's action, apparently in a public display of its resolve to control missile proliferation, was taken in order to compel Isro and Russia's Glavkosmos to terminate a $250m (£141m) contract to transfer rocket technology to India.

The move follows a recent improvement in US-India relations, as shown by the Bush administration's support of an International Monetary Fund loan to India, an agreement to hold joint naval exercises, and India's recognition of Israel.

MPs were alarmed that the move against Isro is the second time Washington has acted against India recently. Less than a fortnight ago it withdrew preferential duties on Indian pharmaceuticals because of India's failure to protect US patents.

The Indian government claims its space programme is meant to improve communications and weather forecasting and is entirely peaceful. India chose Russian rocket technology after all western countries had turned it down on the grounds that it would improve India's missile launch capability. India has refused to sign the non-proliferation treaty, arguing that it discriminates in favour of existing nuclear powers.

The Russians were proposing to supply a Missile Technology Congress Regime class system capable of carrying a 500kg payload to a minimum distance of 300km.

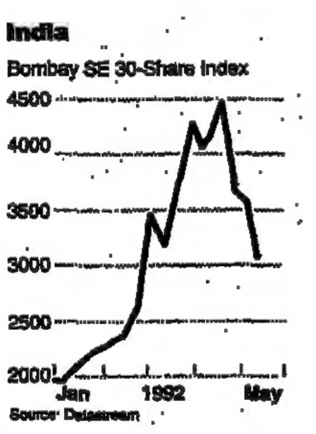
The bamboozle that burst the Bombay bubble

David Housego and **R.C. Murthy** on the scandal that threatens to turn a stock market slide into a crash

Like any bubble the Bombay stock market boom had to burst one day.

But as the Central Bureau of Investigation launched an inquiry into what seems to be India's worst-ever financial scandal, the fears are that a can of worms could be opened which will turn the market's two-week slide into a crash.

After the Bombay Stock Exchange index tumbled yesterday a further 10 per cent to 3,086, the most sanguine expectation was that the market would bottom out at 2,500 – or 43 per cent down on its peak in April.



The second concern is that both the extent of the abuses and the market's fall could deal a savage blow to the government's efforts to develop the fledgling capital market as an instrument to tap public savings for both private sector and public sector investment.

One of the immediate results could be that fresh public issues will be more difficult to launch or could be postponed. The market had been expecting Rs40bn (£800m) of new issues – including a big issue from the Grasim (Aditya Birla) group to finance new refinery at Mangalore in southern India – in the coming month. Reliance, the petrochemicals group had also been hoping to raise $100m in a Euro-issue at a tentative price of $10 a share. But this will be much trickier with Reliance's own share price dropping yesterday to Rs260 on the Bombay market.

Faced with disarray not only on the stockmarket, but in the bond and money markets, the government's hope in calling in the CBI is of a surgical strike to remove the offenders and to clean up the market. It would welcome a fall in the index – which at its peak had been trading at unrealistically high average price-earnings ratios of more than 45 – but wants to prevent a disorderly tumble. A revival of private sector investment through capital market funding is crucial to the government's strategy for restructuring industry and boosting exports.

After a dizzy trippling of prices over the last year in response to the government's liberalisation plans, the market has dived 30 per cent over the last fortnight. This followed the disclosure that large funds – as much as Rs30bn – had been illegally syphoned out of the interbank market in government securities to fuel the share price boom.

The difficulty in limiting the damage is that those who have so far been implicated in the scandal are no minor players. Mr Harshad Mehta, the first-generation Bombay broker who had to repay Rs6.2bn to the State Bank of India, the largest state-owned commercial bank, because of irregular securities trading, was more than anyone the architect of the bull run this year. He proclaimed not only the dramatic rise in the market but publicly announced which shares he was backing. Those he chose have since taken the hardest tumble with Associated Cement (ACC) dropping a further Rs1,100 on Monday to Rs4,400 after reaching a peak of Rs10,500 on April 2.

Mr M J Pherwani, who has resigned as head of the National Housing Bank, headed the Unit Trust of India, a state-owned – and the country's largest – mutual fund for 10 years. He was also the chairman of a government-appointed committee that recently recommended a revamped national stock exchange. As chairman of UTI, he was a lead player in the bull market of the late 1980s. He was forced to step down from that position because of his allegedly links to the Ambani family who control Reliance and who were accused of market manipulation.

Both Mr Mehta and Mr Pherwani are well connected both in the Bombay financial market and among politicians and the top civil servants in Delhi. Other senior banking executives including Mr K. Margabandhu, chairman of the Calcutta-based United Commercial Bank, and Mr C L Khemani, deputy managing director of the State Bank of India were asked to take immediate leave.

The diversion of funds was possible because of the chaotic securities market in which bankers receipts are traded. Bankers receipts are promissory notes issued by banks to each other in trading on government bonds. The Reserve Bank of India (the central bank), which acts as a bond depositary for banks, had fallen badly behind in registering security transfers because this part of its operations is still not computerised. "There was a systems failure," Dr Manmohan Singh, the finance minister, told parliament on Monday.

But the inadequate supervision that is now seen to have characterised the bond market is also true of the stock market where insider trading and the rigging of prices is known to flourish. "Entry, holding and exit are all hazards in this market," Mr G V Ramakrishna, the chairman of the Securities and Exchange Board of India said six months ago. Not much has changed.

The diversion of funds from the bankers receipt market occured through the issue of false paper and the illegal use of securities as collateral to raise fresh funds. The abuses were due to both the bull market of the last year and to the archaic trading system. Brokers seemed to have won the confidence or connivance of bankers dealing in bonds.

The suspicion of fraud surfaced in mid-April but came to public notice a fortnight later as commercial banks started to reconcile accounts for the accounting year ending March. It was at this point that the State Bank of India realised it was owed Rs6.2bn by Mr Mehta and forced him to settle.

As a fall-out from this Mr Mehta was unable to meet other obligations – including payments to the National Housing Bank. Mr Pherwani attributes National Housing Bank's inability to deliver on cash or security payments of Rs3.4bn to Canara Bank on Mr Mehta defaulting on his obligations to him.

These transactions occurred within the framework of the bankers receipt – a normally narrow interbank market trading in government and public sector bonds. Banks' investment in the market none the less exceeds Rs1,400bn.

Until recently the market has focused on banks purchasing some Rs10bn a month of bonds to meet statutory liquidity requirements set by the Reserve Bank.

But the market became active in February anticipating a fall in bond prices, especially long-dated securities, on reports of a possible interest rate rise on new bonds the government was to issue in March. Banks entered futures swap deals promising deliveries after the coupon rise. This occured on March 17 with long-dated bonds rising 0.5 per cent to 12.5 per cent. Some banks had already sold short.

Bond market players used the bankers receipt to register transactions which require immediate cash payment but leave delivery of the security to later.

With the Reserve Bank unable to police a fast expanding market because its own registering of transactions fell behind, the opportunities and temptation for fraud grew.

In the coming days the government will use the weight of the state-owned institutions to prevent an uncontrolled fall in the market – hoping that foreign portfolio investment will emerge to provide a safety net.

However small investors will already have been frightened by the market's sharp descent and could go on selling.

PAKISTANI BUDGET

Reduced fiscal deficit sought

By Farhan Bokhari in Islamabad

THE Pakistani government will unveil its annual budget tomorrow amid widespread expectations of measures to narrow a PRs72bn (£1.61bn) budgetary deficit. These are expected to include cost-cutting efforts as well as possible tax rises.

The deficit, estimated at 6.1 per cent of gross domestic product, has broken an earlier target ceiling of 4.8 per cent. It is regarded as a big pressure on the economy at a time when Pakistan is trying to encourage large-scale privatisation and deregulation.

At the same time, though, the government yesterday claimed that the annual growth rate for 1991-92 has risen to 6.4 per cent, up from 5.6 per cent a year earlier. According to Pakistan's official economic survey, announced ahead of the budget, the manufacturing sector registered the largest growth rate of 7.7 per cent followed by 6.4 per cent in agriculture.

The government is also expected to take credit for a 25 per cent increase in fresh private investment and a 13 per cent increase in exports. Inflation is down to 9.5 per cent from 12.5 per cent a year ago, the government says. The country's foreign exchange reserves stand at some $650m (£362m), up from $300m a year ago.

However, failure to meet the earlier deficit target is attributed to an adverse international economic situation and lower than expected response in the privatisation programme which is eventually expected to raise up to PRs250m.

According to the economic survey, the current account deficit during 1991-92 is likely to end up higher than the $2.2bn last year.

This has occurred because of a failure to meet an export growth target of 20 per cent, and a rise in imports by 10.5 per cent as opposed to an earlier projection of 2.5 per cent.

A drop in international cotton prices and yarn has also affected export earnings. Remittances from overseas Pakistani workers have also fallen. But the current account deficit is expected to be made up in part by deposits in foreign currency accounts at Pakistani banks, allowed last year under government liberalisation measures.

Under the privatisation programme, the government has partly sold 50 public sector factories with transfer of management to private owners, as opposed to an earlier target of 100. The programme has raised PRs10bn through these partial sales while another PRs15bn is expected to be raised through future sale of more shares in these factories.

Among other economic constraints, the government is unlikely to cut the large defence budget, expected to stand at PRs76.9bn. Some of Pakistan's foreign aid donors have expressed concern over defence expenditures, regarding this as an area where cuts would reduce the deficit. But resistance from the politically influential army together with continued tensions with India over Kashmir and instability in Afghanistan have prevented such reductions, officials say.

Another PRs79bn is expected to go towards debt servicing, where Pakistan's total external and internal debt stands at approximately PRs900bn. Last week Mr Nawaz Sharif, the prime minister, said the country has accumulated a large debt burden, making it the biggest obstacle in the way of balancing the budget.

China announces special economic zone for Lhasa

CHINA is planning to set up a special economic zone in Lhasa, the troubled capital of Tibet, Reuter reports from Beijing.

The zone will imitate those operating in China's flourishing coastal regions, the official China Daily said yesterday.

It quoted Tibet's vice governor Gyamtso as saying lack of open-mindedness had impeded the region's development in the past.

Tibet has been rocked by sporadic riots since Buddhist monks demonstrated against Chinese rule in late 1987, prompting police to open fire on protesters.

The region's exiled spiritual leader, the Dalai Lama, says more than 1m Tibetans have been killed since China took control of his country, now called the Tibet Autonomous Region, in 1950.

China Daily said Tibet's local government is drawing up preferential investment policies for the Lhasa special economic zone, including tax breaks and low land-use fees. The isolated region plans to open several new border trading ports. Currently Tibet's sole air link is with Chengdu, in neighbouring Sichuan province.

Cosmetic surgery cuts a dash with China's new face

Yvonne Preston on how a change in attitudes in the People's Republic lets women alter their looks

MORE Chinese want wider eyes and bigger noses and are subjecting themselves to cosmetic surgery. Surgeons performing the operations, excising part of the upper eyelid and inserting a silicon strip in the nose, say the aim is not to look more western.

But to many young Chinese western standards of beauty are part of a revolution in style which has come with a taste for hamburgers and Kentucky Fried Chicken, rock and roll, imported designer sunglasses and jeans.

At Shanghai's 9th People's Hospital 2,000 cosmetic surgery operations were performed last year. The hospital has a waiting list of another 2,000 and there were an estimated further 1,000 operations in other Shanghai hospitals, a tiny number in a city of nearly 14m people, but growing.

Most are for eye rounding and nose augmentation, but the hospital's plastic surgery department also offers face lifts, stomach tucks, breast enlargement and lyposectomy, sucking surplus fat from the body.

Patients are overwhelmingly female and local. Lured by the low cost more are coming from Hong Kong, Macao and south east Asia. For around $11 a local patient can have both eyes widened. A nose costs $14. Overseas Chinese and Hong Kong compatriots pay 10 times as much, but the price is still attractive. Professor Wei Wang, director of the plastic surgery department, expects to put it up to $50 by the end of this year.

In the 1950s cosmetic surgery was forbidden by the government. In the cultural revolution self-beautification was bourgeois, decadent and dangerous. "We just asked Deng Xiaoping if it was alright to go ahead," said Professor Wei with a chuckle. Since 1982 the department's surgeons have performed 500 face lifts.

Cosmetic surgery was approved after the fall of the gang of four, according to Professor Guan Wen Xiang, head of the hospital's research institute into plastic and reconstructive surgery.

Standards of beauty change in China as everywhere else. In the Tang dynasty fat was fashionable. For centuries tiny feet were seen as beautiful, many women being crippled by the cruel custom of foot binding. The westerner has long been mocked as a Big Nose but Chinese fashion now dictates that the small, flat Chinese nose is enlarged with silicon – "but not like yours", Professor Guan added hastily.

In the shapeless 1970s curves were taboo and the Chinese female figure in its Mao jacket looked little different from the Chinese male. Women such as Wang Ling, sitting on her bed at the 9th People's Hospital after having her breasts enlarged with silicon implants, are now embarassed by their lack of curves. "My husband is a businessman and he wanted satisfaction," she said. "He wanted me to look good socially."

In the bed opposite Lu Feng Hua, 40, is about to spend $350 on a face lift. All the way from Inner Mongolia where she practices traditional Chinese medicine, her tight smooth skin shows a few laugh lines at the eyes and frown lines across her forehead, but nothing to warrant a face lift.

Of 8,000 patients seen last year by the plastic surgery department, 25 per cent were about "making people look more beautiful and younger than they are," as Professor Guan puts it. The rest were seen for disfigurement by burns or congenital deformity.

California riots focus minds on welfare reform

The governor of the state claims unrest in Los Angeles is proof of the need for change, writes Louise Kehoe

ON the Friday morning when the burning and looting in Los Angeles stopped, thousands of poor residents of the city's South-Central district had a more pressing need than protesting.

They were standing in long lines waiting to collect their weekly welfare cheques at the few post offices still operating in the riot-stricken area.

The queues demonstrated the dependency on social benefits of large portions of the population in the economically depressed inner city. Yet Los Angeles' 1.3m welfare recipients, and 2.3m throughout California, now face the possibility of swingeing cuts in payments.

Mr Pete Wilson, California's Republican governor, plans to place proposals for welfare reform on the state ballot in November when he will ask voters to approve an immediate 10 per cent cut in welfare benefits.

After six months, payments would be reduced by an additional 15 per cent to families that include an able-bodied adult.

The governor says his proposed Taxpayers Protection Act is designed to "encourage personal responsibility and independence while discouraging welfare dependency," which he believes has contributed to the breakdown of social values he recently linked to violence in Los Angeles.

"Generous" welfare payments have become a disincentive to work, he maintains. A person working full time on a minimum wage may be little better off than another on welfare under the current system, although both must struggle to make ends meet.

The governor's initiative would allow welfare recipients to earn more before payments are withdrawn. It would also create a new $34m (£19.2m) job training scheme and a programme designed to encourage teenage parents to stay in school.

However, the primary thrust of the reform is directed towards the growing problem of single, unsupported mothers who represent 87 per cent of the state's welfare case load.

Only 6 per cent of single-parent families that go on public assistance do so because the parent becomes unemployed, according to state statistics. "The overwhelming majority go on welfare because of divorce or separation from the income-earning spouse, or because a non-working single woman gives birth to a child," says Mr Russell Gould, secretary of the California Health and Welfare Agency.

Although the problem affects all segments of the population, it is particularly acute in the black community. While blacks make up only 7 per cent of California's population, they represent almost 25 per cent of welfare recipients. All but a small fraction of these are single mothers.

Under the governor's proposals mothers would get no extra benefits if they give birth to additional children while on welfare, and benefits for first-time mothers would be eliminated. Payments to teenage mothers would also restricted, forcing them to live with parents if they are to receive welfare.

Critics charge that the proposed cuts would lead to increased homelessness and poverty. Children's rights advocates are incensed.

Yet by presenting welfare cuts as an alternative to reductions in state spending on education, Mr Wilson has effectively pitted the interests of middle-class Californians against those of the underprivileged and, to a large degree, whites against minorities.

The governor maintains "tough times require tough choices" between "runaway" welfare costs and the needs of California's growing school-age population.

Few would deny that California faces a welfare spending crisis. In the current fiscal year the state expects to pay $2.8bn in Aid to Families with Dependent Children (AFDC), the primary welfare programme. Without any changes, AFDC costs are projected to rise to $3.1bn next year, a 54 per cent increase over expenditures in the 1988-89 fiscal year.

Before the Los Angeles riots, Mr Wilson dismissed as "partisan twaddle" the charges of some democratic legislators that his proposals were an attack on poor minorities that could incite "class warfare".

Today the potential for a violent reaction to welfare cuts is not so remote and some political analysts expect voters to reject the "reforms" rather than risk more social unrest and racial tension. Others fear a backlash as voters associate welfare families with the looting, arson and murder that swept through Los Angeles.

Mr Wilson says voters will view the Los Angeles riots as proof that the welfare system needs to be reformed. "If people think about what causes people to go out and...engage in brutality...they're going to conclude that it reflects a total absence of real values.

"And, unfortunately, a lot of it comes back to the fact that we've got kids, through no fault of their own, being neglected from early childhood."

President will veto any bill with compensatory tax increases

Bush draws up plan for inner cities

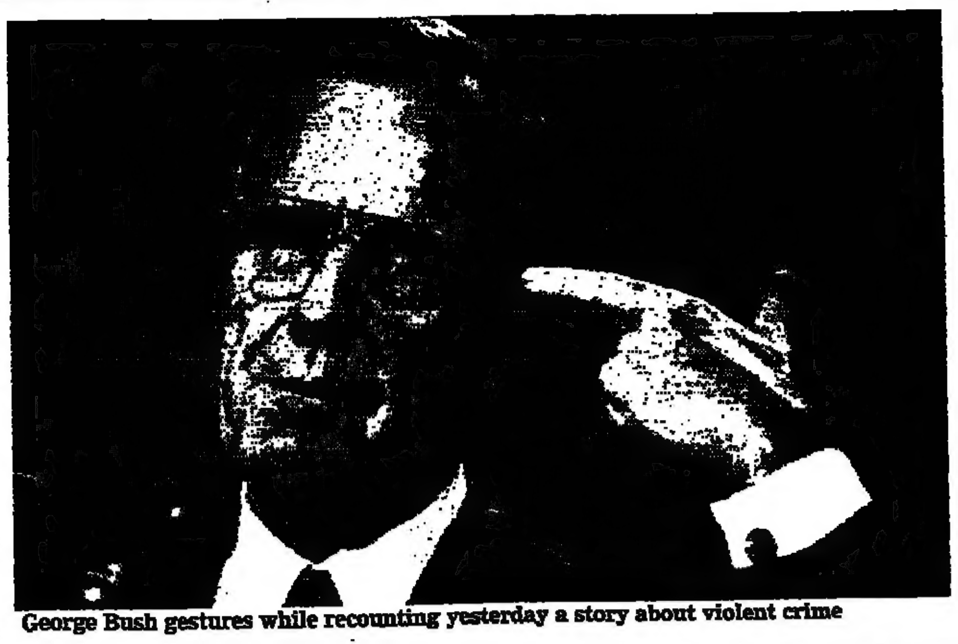
By Jurek Martin in Washington

PRESIDENT George Bush yesterday announced a six-point $3bn-plus (£1.6bn) programme to relieve conditions in America's inner cities, but said he would veto any bill that included a compensatory tax increase.

Speaking before a meeting congressional leaders, Mr Bush was unable to put a sum on the cost of his proposals, which appeared mostly an amalgam of long-standing administration policies. Some exist in pilot form, some may be implemented by bureaucratic fiat and some require new legislation, but none had been a priority before the Los Angeles riots two weeks ago.

The six points are:

- Expanding the Weed and Seed programme, designed to increase law enforcement and targeted social efforts in high-crime areas.
- Expanding home ownership for those in public housing.
- The creation of federal enterprise zones.
- Encouraging greater choice in public education.



George Bush gestures while recounting yesterday a story about violent crime

- Allowing those on welfare to have savings of up to $10,000, 10 times the current limit, before becoming ineligible for welfare support.
- Job training, specifically the expansion of a youth apprentice scheme.

Later, White House officials, while conceding the imprecision of some of their hurriedly compiled sums, gave a rough cost break-down.

The enterprise zone bill, consisting of tax breaks for inner-city investors, might come to $1.5bn; home ownership provisions about $1bn, up from $361m in the current budget; $500m for the Weed and Seed programme, now only in pilot form: and nearly $700m for job training.

Emergency assistance to Los Angeles already amounts to about $600m, while unemployment insurance claims are likely to top $2bn. These, however, are covered under existing laws.

With an eye on the November election, Mr Bush emphasised his opposition to tax increases to finance additional spending. "The idea that you have to raise taxes at this time, when the economy is starting to recover, I'm sorry, I will not support that."

Congressional reaction was guarded. Mr George Mitchell, the Senate majority leader, promised co-operation with the president, but "I don't promise we will enact precisely everything he proposes". Mr Tom Foley, speaker of the House, said it would be worthwhile looking at transferring funds from the defence budget.

US court rejects challenge over unitary taxation

By Louise Kehoe in San Francisco

CALIFORNIA'S supreme court has rejected a challenge to the state's "unitary taxation" system, in a decision that could cost multinational companies with operations in the state about $792m (£447m) in disputed tax payments.

British, Japanese and other foreign companies have been fighting California's unitary tax for a decade. The case decided by the supreme court was brought by Barclays Bank of the UK in 1984, and challenged the constitutionality of the tax assessment method.

Unitary tax is calculated according to a formula that takes into account a company's worldwide earnings and taxes a portion of them according to the percentage of activity in the state. A company that has 10 per cent of its world sales, property and payroll in California, for example, would be taxed on 10 per cent of its global profits, even if the California operation made no profit.

The court rejected the claims of multinationals – which have been backed by the Bush administration as well as by foreign governments, including the UK – that the tax method interferes with the US federal government's ability to conduct foreign policy.

While acknowledging that four US presidents have opposed state unitary taxes, the California court held that Congress, which holds power over foreign commerce, has not opposed the tax.

The law "does not give executive [branch] officials carte blanche to declare state tax methods null when they irritate our trading partners," Justice Armand Arabian wrote in a unanimous decision.

The state court referred back to the state appeals court the relatively minor issue of whether calculating unitary tax places an unfair burden on foreign multinationals.

David Barchard adds: Barclays said in London last night it was disappointed but not surprised by the Californian judgment. The bank, which had hoped to secure a tax refund of about $30m, plans to appeal to the US Supreme Court in a last-ditch effort to overturn the judgment.

Deals set up trade in pollution permits

By Barbara Durr in Chicago

THE first US deals to trade pollution rights were announced yesterday when the federally-owned Tennessee Valley Authority said it had agreed to buy allowances to emit 10,000 tons of sulphur dioxide, a key cause of acid rain, from privately-owned Wisconsin Power & Light.

The Wisconsin utility, based in Madison, also said it sold allowances to Duquesne Light of Pittsburgh for emissions of between 15,000 and 25,000 tons.

The exact terms of the sales were not disclosed but the price of each allowance was between $250 and $400 (£140 and £223), an official said.

The deals are, in essence, forward contracts on allowances that will be issued next year by the Environmental Protection Agency as part of the implementation of the 1990 Clean Air Act.

The act requires utilities to cut their sulphur dioxide emissions in half by 2000, or from a national total of 19m tons to 9m tons. The first deadline for partial compliance is in 1995.

To help ease the high costs of converting to cleaner technologies, the US government has created a system under which "dirtier" utility companies can buy allowances for sulphur dioxide emissions from "cleaner" companies that have exceeded federal standards. The allowances have been allocated, but will not be in the hands of utilities until an auction in March 1993.

Mr Erroll Davis, president of Wisconsin Power & Light, said the transactions "clearly demonstrate that a market-based approach can be an effective way to address environmental problems". There is, however, scepticism over how well such a market can work, as state and locally-controlled utilities have been slow to set clear policies for trading allowances.

The Chicago Board of Trade, the world's biggest futures market, plans to begin trading futures contracts on the allowances, dubbed pollution futures.

Producer prices up 0.2%

US producer prices rose a modest 0.2 per cent in April, the Labour Department said yesterday in a report showing that the weak economic recovery is restraining price advances, Reuter reports from Washington. April's rise in the producer price index matched 0.2 per cent advances in both March and February.

The report generally supported financial analysts' views that price pressures are under control and that the Federal Reserve, the US central bank, has room to lower interest rates without fanning inflation.

During the first four months of the year, producer prices had risen by a seasonally adjusted annual rate of 1 per cent, the department said. In 1991, the PPI fell by 0.1 per cent.

BP to cut harmful emissions by 50%

By Neil Buckley

BP CHEMICALS, one of the world's largest producers of chemicals and plastics, is to spend around $100m a year on cutting its emissions of hydrocarbons by 50 per cent.

The company yesterday disclosed full details of its emissions into the environment for the first time, and promised to do so annually. It also pledged to cut emission of hydrocarbons - which contribute to global warming - by 50 per cent from their 1990 levels by 1997, and to reduce solid emissions to water by two-thirds.

The company is committed to spending $100m (£56m) this year on its environmental programme, compared with typical capital expenditure of $600m, and expects to spend similar amounts annually for the next five years.

At its 10 largest sites in Europe and the US, including five in the UK, emissions and waste generation in 1990 were 170,000 tonnes, equivalent to 3.2 per cent of total production. These sites account for only 75 per cent of total production, but more than 95 per cent of all emissions.

BAA launches £900m scheme for Heathrow

By Paul Betts, Aerospace Correspondent

BAA, the former British Airports Authority, yesterday announced plans to build a £800m-£900m fifth terminal at Heathrow airport, Europe's busiest international passenger airport.

The scheme, expected to lead to a lengthy planning inquiry, was attacked by local residents but welcomed by the airline industry.

Sir John Egan, BAA's chief executive, said the terminal would help Heathrow maintain its leading international position "well into the next century" and safeguard 10,000 jobs at the airport.

It would also provide extra capacity for 30m passengers a year at Heathrow, one of the world's most congested airports, and a new base for British Airways, the UK flag carrier which accounts for 40 per cent of Heathrow's traffic.

The International Air Transport Association (Iata) said that, without the new terminal and other air traffic control and infrastructure investments, Britain could lose $1bn annually of economic activity by the turn of the century.

BAA had originally estimated the cost of building the terminal at £1.6bn, but Sir John said that had been reduced to £800m-£900m because of improved pre-planning and better project management. The project would be financed from cash flow and some debt, although the borrowings would not affect the company's current gearing levels, Sir John said.

Detailed architectural designs have yet to be completed by the Richard Rogers Partnership. Bovis, the construction arm of the P&O company, is also working on the project. BAA is hoping to win government approval for the project in 1997 after a public inquiry.

The proposals envisage building the terminal at the west end of the airport on the site now occupied by the Perry Oaks sludge works.

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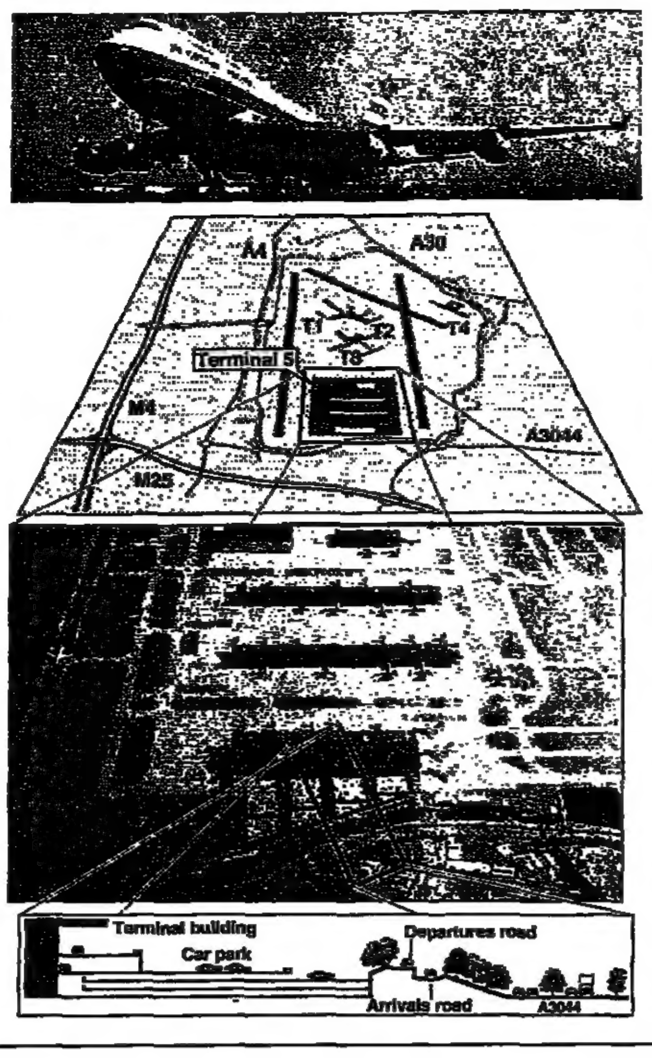
BAA plans for Heathrow



Passenger demands lead to UK terminal fatigue

Paul Betts on London's future as an airline hub

CONSTRUCTION of a fifth terminal at Heathrow airport is an important but only partial step in providing London with sufficient capacity to meet growing passenger demand.

Although BAA, the former British Airports Authority, yesterday tried to focus attention on its plans to build a new terminal at Heathrow, it conceded that it would have to consider building a second terminal at the recently opened Stansted airport to cope with passenger growth in the next century.

The Civil Aviation Authority (CAA) also believes it will be necessary to build a new runway to serve south east England after the turn of the century.

But the fierce public debate and local opposition provoked by new airport developments has forced the BAA to adopt a softly-softly, stage-by-stage approach to its long term plans for its London airports.

Predictably, local authorities reacted strongly to BAA's announcement yesterday fearing that the new terminal would increase the number of flights at Heathrow, cause even greater noise and disturbance and worsen traffic congestion on motorway links to the airport.

For BAA the construction of an additional terminal at Heathrow has become an urgent priority if the airport is to maintain its position as a leading international aviation hub and accommodate the steady growth in passenger numbers and a new generation of very large widebody aircraft.

"Terminal 5 is the key to the continued development of air services to the UK. Without the terminal...Britain alone would stand to lose a billion dollars of economic activity every year," Mr Gunter Eser, the director general of the International Air Transport Association, said yesterday.

Sir John Egan, BAA chief executive, warned that if the terminal was not built, the UK air transport industry risked facing "the general decline we have seen in other industries". Other European airports such as Paris or Amsterdam would take over some of Heathrow's share of the international passenger market, he added.

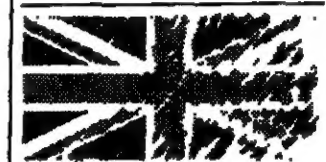
BAA hopes the government will give the formal go ahead for the project in 1997 to enable the first phase of the terminal to be completed by 2001.

This will provide additional annual capacity at Heathrow for 10m passengers when the terminal opens in 2002 giving the airport a total capacity of around 60m passengers a year. The second phase would be completed by 2016, adding room for an extra 20m passengers a year.

Even with the completion of the first phase of the project, demand is expected to exceed capacity in the London area by 2005. With the completion of the second phase, there would still be a capacity shortfall of 27m passengers by the year 2016, according to current traffic forecasts, unless additional facilities are built.

A second terminal is likely to be needed at Stansted. Although the new £400m Stansted complex opened last year is still struggling to attract traffic, BAA remains confident the airport will eventually fill up as passenger growth recovers from the air travel slump caused by the Gulf war and the recession. Demand at Gatwick is also expected to grow during the next few years.

Britain in brief



Union rules out split from Labour

The leader of the TGWU, Britain largest union, has ruled out an end to union links with the Labour party and expressed dismay at plans to dilute union influence over opposition policy-making.

Mr Bill Morris, general secretary of the TGWU, Labour party's largest affiliate, said there would be "no separation and no divorce" between Labour and the unions. He was reacting to proposals by rival candidates in the party's leadership election who have called for reform of the unions' 40 per cent control over party policy decisions at the annual Labour conference.

Mr Morris said there had been suggestions that unions should become no more than collection agencies for membership dues. "I am fascinated by the Labour Party debate. Not only are people making up policies on the hoof, they are also trying to instruct the unions as to what to do with their money and how to conduct their democratic procedures," he said.

Private rail service begins

Britain's first private rail service has started between Scotland and London, offering discount seats on overnight services to the capital.

Stagecoach, the entrepreneurial bus operator providing the service, became the first private operator on the state rail network by leasing two carriages from British Rail, which are hauled behind BR's existing sleeper service.

The seat-only carriages have been taken over by Stagecoach on a three-year contract with BR and painted in the bus company's blue, red and orange livery.

TV company seeks review

Mr David Mellor, National Heritage secretary has agreed to give further consideration to a proposal to extend the moratorium on takeovers of ITV companies until the end of 1995.

Central Television, the independent TV company, has been campaigning against moves which from 1994 will, in theory, enable Community companies to take over all of ITV. In most other EC countries there are barriers to overseas takeover of television networks. Mr Mellor, the minister responsible for the media, has promised to re-examine the possible effects of changes in broadcasting legislation.

Satellite venture launched

Mr Derek Lewis, former chief executive of the Granada group, is to set up an entertainment channel on satellite television in a joint venture between Thames Television and the BBC. The venture will draw on the programme libraries of Thames and the BBC and is expected to be launched on the Astra satellite system towards the end of this year. Thames lost its ITV franchise in last year's competitive tenders.

Schools to get extra funds

The government has released an extra £4.4m to help local authorities upgrade facilities and remove surplus places in schools. The funding, supplementary to the annual £524m capital budget for schools, is to help reduce the 900,000 empty school places, as estimated by the Audit Commission, the government's local authority watchdog.

Tube staff offered 4.5%

London Underground has offered a 4.5 per cent pay rise to its rail and craft unions and appeared to make some progress on its disputed company plan with the transport union RMT. The pay rise, the same as that offered and accepted at British Rail, is likely to be accepted by the unions.

Travel group criticised

The latest monthly report of the Advertising Standards Authority, indicates that dubious practices for holiday timeshares are still giving cause for many complaints, but that some travel companies have also recently been found to use misleading advertising.

Three complaints against the travel company Airtours are upheld by the ASA. In one, Airtours used an advertisement headlined "Kids £199 to Florida", but the offer failed to point out that it was available only to one child per two full-fare paying passengers.

Warning on pit closures

Continued pit closures in Nottinghamshire would have a "devastating" effect on the economic and social life of the county, the North Nottinghamshire Training and Enterprise Coal has warned the government. It urged the formation of a national energy policy based on the use of coal as a strategic fuel. This is the first political intervention by a training and enterprise council, 82 of which have been set up across England to bringing the training system closer to private sector needs.

Demand grows for physicists

The supply of physics graduates is falling well short of the UK demand for qualified physicists, and the position is likely to worsen, according to a report published by the Institute of Physics. The institute claimed that the number of physics-based enterprises in the UK expanded from 20,000 to more than 31,500 in the 1980s, while in 1993 the number of new physics graduates will be only 13 higher than in 1983.

By contrast, it says, between 1983 and 1989 the number of science-trained graduates rose by 16 per cent in Japan and 61 per cent in Germany.

Equal pensions set back by EC court

By Robert Rice, Legal Correspondent

EQUAL pension rights for men and women in the UK suffered a setback yesterday when the European Court of Justice in Luxembourg gave a preliminary opinion that EC law does not require equal treatment of men and women in national insurance contributions.

The advocate general's opinion, in a case brought by Britain's Equal Opportunities Commission (EOC), is not binding on the full court. But in most cases, the court upholds advocate general's opinion.

The EOC was seeking a declaration that the UK government was in breach of an obligation in the EC social security directive to give equal treatment in state benefits.

To qualify for a state pension in the UK men, must have paid national insurance (NI) – the tax levied on all wage earners to pay for social security benefits – for 44 years. But for women the figure is 39 years. After the age of 60 women may not make any further NI contributions, but working men between 60 and 64 must pay NI contributions from their earnings even if they have already contributed for 44 years.

The EC directive permits member states to retain different pension ages for men and women, but sets out a number of aspects of state pension schemes where equal treatment must apply.

The EOC argued that the UK's arrangements for contributions and eligibility for state pension were in breach of the social security directive.

The advocate general's opinion contrasts with recent European Court decisions on equality in the employment and pension fields.

In the 1990 Barber case involving occupational pension schemes, the court ruled that men and women should receive equal pensions as well as equal pay for equal work.

The problem in the present case appears to be that the social security directive permits member states to differentiate between state pension ages for men and women. The advocate general concluded that where a member state has a fixed pension age differing according to sex, it "may still derogate from the principle of equal treatment laid down in the [social security] directive ... unless such unequal treatment of men can be eliminated by the national court without unduly jeopardising the coherence or financial equilibrium of the national social security system concerned."

The UK government has already announced its intention to move towards a common state pension age for men and women.

Lower core inflation fails to lift demand

By Peter Marsh and John Thornhill

THE GOVERNMENT yesterday revealed a lower than expected figure for core inflation, although this potentially good news for the economy was accompanied by indications of continued weakness in consumer demand.

The Central Statistical Office said the index of prices of manufactured products for domestic consumption rose in the year to April by 3.8 per cent, the lowest figure for more than four years.

But leading retailer Marks and Spencer – whose sales are tracked on a monthly basis by the Treasury – said in its annual results statement that consumer spending had yet to show an upturn.

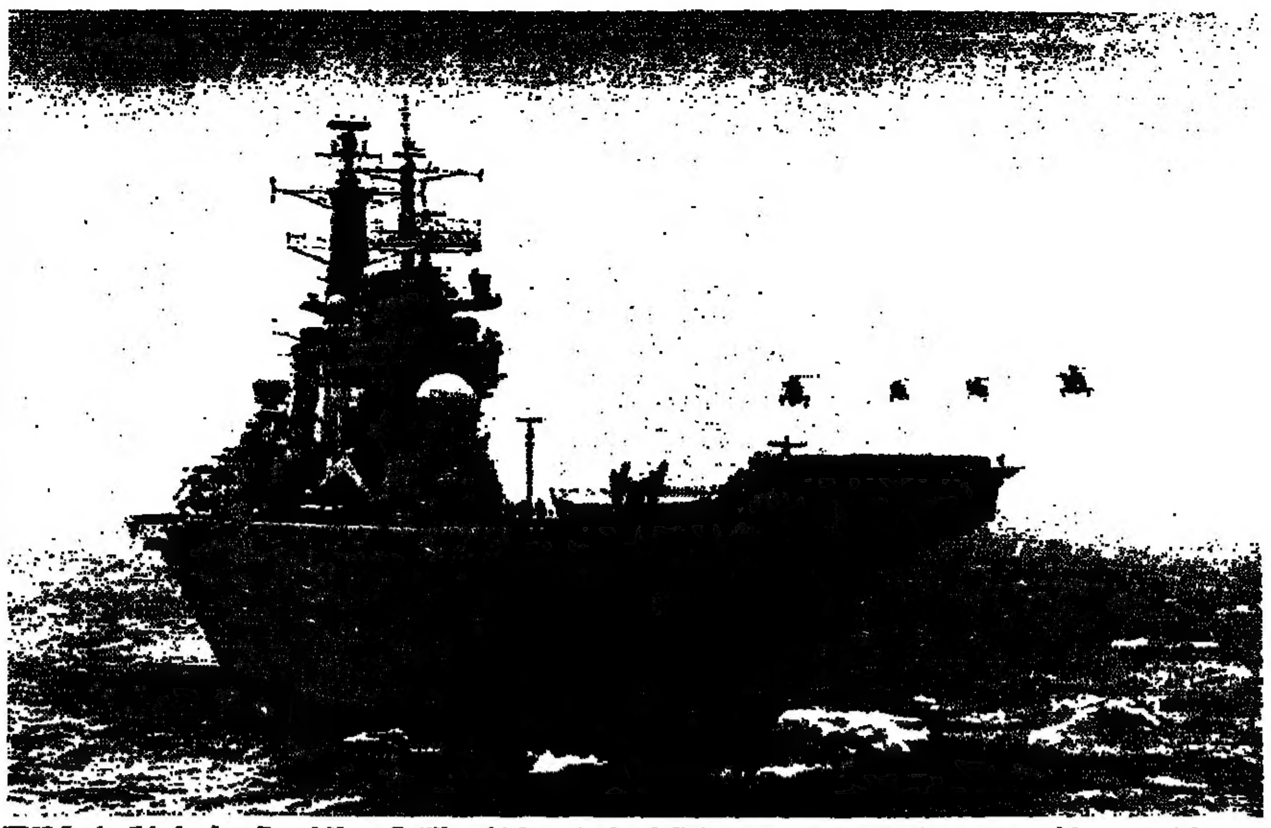
Indications that the removal of political uncertainty after the April 9 election has so far failed to stimulate the economy were reflected in a fall on the London stock market. It ended four successive days in which prices had closed at new records. The FT-SE 100 index of leading shares finished at 2,722.4, down 15.4.

The inflation figure highlighted the lack of success of many manufacturers to restore profit margins, which have suffered since the recession started around mid-1990.

Meanwhile, Sir Richard Greenbury, M and S's chairman and chief executive, said in announcing a 1.3 per cent increase in pre-tax profits to £623.5m that the recession had not ended as far as his company was concerned. Hopes of a sustained recovery later this year are linked to projections about a broad increase in consumer spending, which accounts for two thirds of gross domestic product.

However, Mr John Major, the prime minister, put a more positive gloss on the economic outlook, emphasising the "dramatic change" in confidence since the Tory victory.

Lex, Page 18
M and S profits up, Page 20
Results, Page 26
London stocks, Page 29



HMS Invincible leads a Royal Navy flotilla which yesterday left Portsmouth, the south coast naval base, to visit East and South East Asia and the Arabian peninsular. The ships will take part in exercises and the Ministry of Defence said the trip would "demonstrate the continuing ability of the Navy to operate in strength outside the Nato theatre"

Exporters warn of poor prospects

By Ralph Atkins

LEADING EXPORTERS have warned ministers that the UK will become "a screwdriver-assembly economy" if the government's "lamentable" attitude to supporting exports is not reversed, the opposition Labour party said yesterday.

A memorandum sent during the general election campaign and leaked to Labour in recent days warns that, without corrective action, the UK's "only real exports will be British jobs". Labour said the memo was backed by the British Exporters' Association.

The strong language highlights the anxieties of exporters, particularly since the sale last year of the short-term insurance division of the government's Export Credits Guarantee Department (ECGD).

It suggests there was an organised lobbying campaign during the election by exporters to persuade Mr John Major to shake up the Department of Trade and Industry and put pressure on the Treasury. The memorandum says the organisations planned "to convene a press conference in the near future to expose the fallacy of the Treasury position".

Yesterday the British Exporters' Association confirmed that it planned to meet Mr Richard Needham, the new trade minister, on May 26 but refused to comment on the leaked document. The DTI said the volume of UK exports was at a record level but that Mr Needham was ready to listen to industry.

The exporters say the ECGD sale, plus the introduction of a Portfolio Management System which introduced disciplines on the cost of export cover, means "most small companies do not export because of lack of incentive or assistance".

Vauxhall defends UK car prices

By Kevin Done, Motor Industry Correspondent

VAUXHALL, the second-placed car maker in the UK market for new cars, has told dealers that it sees no reason to adjust prices in the wake of last week's critical report from the European Commission on car prices.

The EC study found very large price differentials between countries for some models at times between January 1988 and January 1991. According to the EC report, five car makers – Ford, Honda, Citroën, Mazda and Audi – had at least one model with price differences greater than 40 per cent in one of the five time periods studied.

Vauxhall, the UK subsidiary of General Motors of the US, said it had "serious reservations" about the validity of the some of the EC analysis.

Major sails into royal squall

VICTORY does not carry with it the assurance of tranquillity. His success on April 9 left Mr John Major as strong a prime minister as any in recent history. But the mild hysteria which gripped some Conservative MPs this week over the Queen's comments to the European parliament was a timely reminder that he will not be immune from squalls.

There was nothing remarkable in the sovereign's speech, though the very fact of its delivery marked again the prime minister's break with his predecessor. The balance she struck between the role of the European Community in securing permanent peace in western europe and the need for national diversity was entirely consistent with her government's stance.

Even the garbled precis of her remarks released by Downing Street on Monday went little further than recognise the enhanced authority which the Community and the European Parliament secured at the Maastricht summit.

But in politics, language, perceptions and timing are often more important than substance.

The tensions building in a small but vocal section of the Conservative party over the Maastricht legislation always threatened dissent if there was any suggestion that the Queen was siding with the Euro-enthusiastics. The suggestion in Downing Street's advance briefing that she would downplay the significance of national parliaments guaranteed a row.

It there is a single thread linking the views of the Euro-sceptics within the Conservative party it is their jealousy of the prerogatives of Westminster and their disdain for Strasbourg.

The timing of her visit - linked to Britain's forthcoming presidency of the Community - was also unfortunate. The Maastricht Treaty legislation is due to be debated by the House of Commons next week so the the Euro-sceptics had anyway been marshalling their forces for a rebellion.

Mrs Margaret Thatcher had let it be known at the start of the week that a speech she plans to deliver in the Hague on Friday will include as scathing an assault on the federalist cause as in her Bruges speech four years ago.

So the Queen's appearance on the Strasbourg stage – Mrs Thatcher refused to contemplate a visit by the sovereign to an institution she holds in contempt – was a catalyst for public tensions.

In spite of Mr Major's assurances that Maastricht would not allow the Community to usurp the authority of British MPs, there are more unwelcome headlines to come. Mrs Thatcher's influence has been diminished by her departure from the Commons, but her speeches on Europe play still to a receptive media.

There will also be not insignificant rebellion when the Maastricht legislation is voted on. The best estimate at present is that about a dozen Conservative MPs will oppose it and perhaps half that number will abstain. The figures could rise.

In theory that would comfortably rob Mr Major of his majority of 21. In practice the present disarray in the Labour party - it has not yet decided on its stance and may well abstain on the substantive vote - and likely support for the treaty from the Liberal Democrats appears set to guarantee the prime minister a comfortable majority.

But the debate will not to be without its awkward moments, particularly if the rebels can muster opposition support for their call for a referendum. Even for a prime minister who has proved himself supremely adept at filling the philosophical divides in his own party, there is no such thing as a quiet life.

Philip Stephens

MANAGEMENT

William Dawkins charts the dealings of Japanese companies with Parisian protectionists and finds they are getting a warmer welcome these days

The French connection

Ever since General de Gaulle insultingly described one Japanese prime minister as a transistor salesman, France has had a schizophrenic attitude to Japanese investment.

Yet it hosts more Japanese factories than any European country except Britain.

A year ago, corporate planners in Tokyo were *scratching their heads* over the protectionist and anti-Japanese remarks of Edith Cresson, *France's former prime minister.* More recently, the new premier, Pierre Bérégovoy, has been trying to convince the Japanese that they are, after all, welcome in France.

Which one really represents French policy; the hostile Cresson or the nice Bérégovoy?

The experience of three very different kinds of Japanese investors in France – *Canon, the office* equipment group, Nissan cars and Ajinomoto, the food processor – *suggests* that the truth is somewhere in between.

Japanese – indeed any foreign – investors are welcome, so long as they do not disrupt local competition. Several lessons for newcomers can be drawn from the 10 years or more that each company has spent in France.

First is the power of the indus*trial lobbies, which are strongest in* telecommunications, cars and electronics. The civil service is sensitive *to them, employs some of their top* people, and exerts an all-pervasive influence.

Nissan and Canon found local partners to guide them through the system, *while Ajinomoto got on by* striking a joint venture with a pillar of the French industrial establishment.

Second, government policy switches are only a brake on foreign *companies, rather than a deterrent* to them. They are seen by Canon as a costly irritant and offered by Nis*san as one reason* why France has missed the wave of Japanese investment in European car plants.

"The political changes just make us hesitant," says Hiroshi Nakamura, who recently became president of Richard-Nissan, the Japanese group's French distributor.

Despite the difficulties, the trio are increasing their commitment to France. They say they are there for the long-term, rather than making a dash in under trade barriers.

Canon, for example, opened its European research centre in Brittany last month, which it claims makes it the first Japanese manufacturer to have all its functions represented in France.

Nissan has just bought control of its French distributor, while Ajinomoto and its French partner, the Lafarge Coppée subsidiary Orsan, plan to open a new Italian plant in Venice to make animal food protein supplements.

They are not alone. Elsewhere, Sony has opened its fifth plant in France. Hitachi will in July open a *disk-drive centre* in Orléans, and Toyota is planning to take a minority stake in its distributor.

Getting into France was the least of the three investors' problems. *The French administration* welcomed Canon to Liffré, Brittany, in 1983, because government attempts *to create a French-owned photo*copier industry had come to nothing, says Jacques Le Gall, an *adviser to Canon France.*

Since then, Canon has followed a classic Japanese step-by-step investment pattern. Starting with local assembly of imported components, it has built up a broad base of local suppliers and has set up a club to keep them up to date on its rigorous quality requirements.

Local content is around 60 per cent and Canon recognises it is politically advisable to keep it high, says Le Gall. The new research centre in Brittany completes the chain.

Canon's difficulties began in 1987, when its electric typewriter production in Brittany was subject to European Community anti-dumping duties on the grounds that it contained a high proportion of dumped components.

More seriously, Canon found it impossible to get government approval to sell its facsimile machines in France, a product that faces competition from politically-influential French companies like Alcatel, Matra and Sagem.

The reason given again was not enough local content. It was at that point that the Japanese group headhunted Le Gall, *an adviser to the* then regional development minister.

Canon had to export its French-made fax machines for two-and-a-half years until mid-1989, when the *government was at last satisfied* that the local content was high enough to sell faxes in France.

Inside the plant itself, Canon has found it surprisingly easy to persuade a mainly French workforce *and management to adopt* Japanese methods, such as total quality control and consensus decision-making.

Instead of reacting to fast decisions from the top, French executives have had to get used to making their own input to a very slow decision-making process, says Le Gall.

Out of the 750 staff at Liffé, 30 are Japanese, mostly in management. The French staff have adapted well: the plant is 97 per cent as efficient as its counterpart in Japan and more efficient than Canon's German operation.

Nissan's experience *is similar to* Canon's; years of frustrating resistance from officials, but a harmonious relationship with French staff and customers.

Its entry to France started in the early 1980s when the Japanese company appointed a French distributor, Jean-Pierre Richard.

At first, Nissan wanted a 34 per cent *interest in the new company,* Richard-Nissan, but the government refused. "They never gave us a reason," *recalls Akinari Okabe,* marketing director.

Nissan waited until 1986, before *taking 9.55 per cent, below the* threshold then needed for official clearance.

Then, three years ago, Richard *told* Nissan that he wanted to retire and sell his 72.09 per cent *stake* to the Japanese car group.

Nissan was *granted permission* to buy last summer, with no conditions attached.

"The atmosphere has dramatically changed since that agreement," says Okabe. Nissan's path was also eased by getting Société Générale, a leading French commercial bank, to present its case.

With that hurdle out of the way, *Nissan is now setting about trans*forming its French dealer from a small company with "one man top-down management" *to a group* where responsibility is widely spread, says Nakamura.

Since Richard's retirement, the group has brought in four Japanese managers to join the 250 staff, heading up new departments, from sales *to marketing and personnel.*

So far, the French staff are taking well to the change, says Hervé de Villeplée, Richard-Nissan's vice president.

Ajinomoto's 19-year-old joint venture with Orsan never experienced such bureaucratic teething problems.

This could be because the market for animal food protein is free, with no government interference, argues Alain Crouÿ, chairman of Eurolysine, the joint venture with Orsan.

The French partners reckon they have benefited from adapting Aji*nomoto's production methods to* their jointly-owned plant in Amiens, which has increased productivity by a third in three years.

They have kept a French union structure and workforce, but the management is split equally between Japanese and French staff. "What we try to do is to marry French creativity with Japanese methods," says Crouÿ.

On one thing all three agree. France has been getting less protectionist over the last decade as the government has become anxious not to fall behind on foreign investment of all kinds.

The door may be swinging open. But the trio's experience shows that an inside track to the establishment is still useful, whether *it* be a head-hunted government official, an influential bank or a joint venture partner.

* *The Evolution of Japanese Direct Investment in Europe – death of a transistor salesman; Harvester Wheatsheaf*

Talking turkey on foreign language lessons

Christopher Price picks and chooses from the many training programmes now on offer

Mention foreign language training and most Britons still flinch.

In despair, many managers spend thousands of pounds on training programmes they have not seen or tried, nor evaluated to see whether they meets the needs of staff.

Some send employees on lengthy courses without any idea of the value of the training to either the *individual or the company.*

This lack of quality control is endemic in British business, *according to Stephen Hagen, curric*ulum director for languages at the CTC Trust, the government initiative to bolster industry's involvement in higher education.

He has co-edited a new book* setting out guidelines for companies planning to buy language training packages. "Too many companies are adopting a 'quick-fix' approach," says Hagen, "while fail*ing to apply the normal rules of* purchase to language services as they would to, say, buying a com*puter system or a company car.*"

The wide variety and styles of language training means that the potential purchaser faces a vast array of choices.

A typical corporate response to language training would be:

- to send for some well-advertised tapes;
- to hire a French student to teach a lunchtime class;
- *to send staff along to the local* college;
- or to expect staff to learn in *their own time and at their own* expense.

For Hagen, this type of response is irrelevant and can even be damaging. "All our competitors in other countries are now pursuing integrated language strategies and it is important that we follow suit," he says.

Hagen recommends that companies establish a formal language *training policy, setting out* the objectives and including a specific budget.

*A company should also under*take a "language audit" to gauge the language learning abilities of existing personnel. Linguistic aptitude tests, available from the Open University and from colleges affiliated to the Export Language Training programme, would play a part in this to determine how long tuition for individual employees would take and the consequent cost.

The savings for a company pursuing a qualitative approach can be *enormous. Using data from the* Australian government, Hagen has calculated the average time it takes *business people to reach a set level* of language skill. A "slow-track" learner can take 210 hours to reach the same "survival" level in a European language as it can take a typical "fast-track" student to reach in 75 hours. At a training cost of £40 per hour, the difference can be a staggering £5,400 per employee. If the language is Japanese, the difference can be 300 hours.

*There are other issues to be con*sidered.

- Should the training be conducted on- or *off-site?*
- Should it be condensed or given on a continuing basis?
- What are the abilities of the teaching staff and are they relevant to commercial needs?
- At the end of it all, return on investment should be measured.

With the debate in continental Europe now centring on which third of fourth foreign language should be studied, Hagen says that it is time for the era of consciousness-raising over language training in the UK to move on.

"The message *is slowly* getting through. The debate now is about quality of training, about how indi*viduals can best be utilised and* how companies can get value for money."

**Languages in International Business: a practical guide, edited by Doug Embleton and Stephen Hagen. £10.99. Hodder & Stoughton*

BUSINESS AND THE ENVIRONMENT

Christina Lamb describes how a Japanese colony in the Amazon offers a lesson in sustainable development

Passion in the forest

The *last thing one might* expect to find in a remote town deep in the Amazon *jungle is a karaoke bar* full of Japanese singing "My Way" in broken English. But the song at least is *peculiarly appropriate.* Tome-Acu, the oldest Japanese colony in Amazonia, is being studied increasingly as a possible model for the sustainable development of the world's largest rainforest.

In the closing weeks of the rainy season the small muddy town of Tome-Acu, seven hours by dirt road from the nearest port, looks an unlikely success story. Initially, all that marks it out is a preponderance of banks and the Japanese faces behind the wheels of mud-splattered Beetles hurtling between potholes.

But Tome-Acu has shown that through flexibility and good management it is possible to progress *from subsistence farming* to commercial agriculture in the Amazon without mass deforestation.

Established in 1929 with the arrival of 43 families from Japan, the colony has seen numerous highs and lows as prices of its cash crops fluctuate on world markets. But it has survived through continuous adaptation and crop diversity.

Its beginning was hardly auspicious. Sponsored by a Japanese textile company as part of a wave of immigration to relieve population pressure at home and provide needed agricultural labour in Brazil, attempts of the first arrivals to establish a cacao plantation were thwarted by inexperience and lack of capital.

Instead of making money and returning to Japan as they had planned, they resorted to subsistence farming of rice and beans.

A co-operative was formed to try to market products brought from Japan such as tomatoes, cucumbers and peppers which were not known in Brazilian households.

Over the next decade another 325 families and 128 single men arrived, but many left because of economic *crises or fell victim* to malaria. By 1942 only 98 households remained.

The community was on the verge of *bankruptcy when it discovered* its miracle crop – black pepper brought from Singapore. As the Second World War *disrupted pepper* production in Asia, prices rocketed. By 1961 the small colony was responsible for more than 5 per cent of total world production.

Tome-Acu's prosperity was brought to a sudden end in the late 1960s by a combination of declining world pepper prices and a fungus which attacked pepper plants.

Many people left and those that stayed had learnt an important lesson. "We have never again depended on a single crop," says Kozabura Mineshita, director general of the co-operative.

Although the community did not abandon pepper it began introducing other crops such as passion fruit, rubber, melon and oilpalm.

*Today, the 180 farms of the co-op*erative produce around 40 crops. Jorge Ito is typical, growing seven *crops on his 200-hectare farm* in a mosaic of crop systems, native forest and secondary forest regeneration.

Ito interplants short-lived plants such as papaya and passion fruit, which take only two years to grow with longer-life crops such as pepper. Rubber and cacao grow together, the rubber trees providing necessary shade for the cacao. He has started growing berries for natural colour dyes, acerola, a fast-growing, cherry-like fruit, and kale *for cattle feed. "This way we spread* our risk," explains Ito.

However such a system – involv*ing heavy use of nutrients to pre*vent soil exhaustion – requires considerable capital investment and management techniques which may make it difficult to copy.

The co-operative set-up has facilitated access to credit, machinery and techniques, employing two agronomists. There is considerable interchange of information with working groups for each crop.

The current low pepper price of only $850 a tonne with no short-term prospect of improvement means passion fruit has now taken over as the colony's main crop, producing 1,285 tonnes last year.

With a $900,000 loan from the Amazonia Bank last year the co-operative set up a factory to process *tropical fruit into pulp and then* freeze it to be used for juices and ice creams on both the domestic and *export markets.* "We decided that the only solution was to stop being a producer of primary materials which will keep us forever backward. Rather than supplying industry we must begin processing ourselves," says Mineshita.

They are focusing on three fruit: passion, acerola and cupuacu. Passion fruit was chosen because it already has a market in the US and Europe, although the co-operative's only contract is with a fruit juice company in São Paulo because it does not yet have sufficient production for export.

Acerola is native to Brazil and its high vitamin C content (around 50 times that of an orange) has made it popular in Japan. The co-operative is hoping to develop a market in Europe and is currently negotiating with a French company as well as in Korea, Portugal, South Africa and the US.

Cupuacu is a hard, coconut-like fruit with a coating of brown dust on the outside and an interior of fleshy white fruit with a strong aroma. The fruit is unknown outside Brazil but Mineshita is hoping this will change through a deal recently struck with American non-profit organisation Cultural Survival International.

*"It is crucial for these communi*ties to get control over production. In studying agriculture in the Amazon there has been over-emphasis on technical roadblocks and under-emphasis on capital, marketing and processing which is where the game is really won or lost," says Christopher Uhl, a biologist at Penn State University who has been studying the colony.

The co-operative is now concentrating on increasing production and testing other fruits such as baricuri and graviola. The stress is always on quality through continuous testing and selection of the best plants.

According to Evandro Kikuchu, *deputy factory supervisor:* "The risk is, if we develop markets for these fruits, that other people will begin *to produce and saturate the market* causing the price to fall. We know the survivor will be he who produces best quality."

The focus on native Amazonian fruits may win points from ecologists but the real motive is economic. "We know we cannot compete with the south where they have advanced technology and access to market, so it is better to concentrate on native fruits," says Mineshita.

"If we fail our only option will be to use our land for pasture or wood-cutting which will destroy the forest."

Temperatures raised by free market fever

Bolivia's tropical woodlands are being chopped down at a rate which rivals Brazil, writes **John Barham**

Yet another tropical rain forest disaster is in the making. This time the culprit is Bolivia. Its thickly forested eastern lowlands are being devastated by logging companies and migrants in a repeat of the blunders in neighbouring Brazil.

From the air, the virgin forests look like an endless dark green *carpet, occasionally slashed by* broad rivers which reflect the sun in blinding silver flashes.

Yet international aid officials estimate that the forests are being cut down at a rate of 200,000 hectares a year. That represents a loss of about 0.5 per cent of the forest cover every year, among the world's highest depletion rates.

The problem is free enterprise. Bolivia is one of Latin America's pioneers in experimenting with *free market reforms.* It was even the first debtor nation in 1987 to allow "debt-for-na*ture" swaps, in which* foreign debt is swapped for local currency and used to pay for conservation projects. It also claims to have some of the continent's most progressive environmental legislation. But the weak, lame duck government is paralysed by indecision and is in thrall to special interest groups. Bolivia may have released companies from the weight of state control, but it has *not prevented them from* committing environment plunder.

According to Cedoin, an inde*pendent La Paz information cen*tre, the government has granted 22.5m hectares of logging concessions – half the country's forests. Aid officials complain that agencies like the World Bank, which was implicated in Brazil's environmental catastrophe and is active in Bolivia, are not doing enough to temper the free market fever.

The government did act in January 1990, when it approved the grandly-titled "Historical Ecological Pause". In theory this truce suspended all environmentally aggressive activities while new policies were drawn up. But environmentalists say no attempt was made to stop logging.

"It is frightening, it is uncontrollable – *it is* enough to make you cry. You see areas being plundered, but there is no control. *Nobody is responsible for any*thing," said one scientist.

Loggers only harvest the most *valuable trees. This* both reduces ecological diversity and lowers the forest's economic value, which in turn reduces the incentive to protect the jungle. Forestry officials earning $100 a month do not think twice at taking bribes to let convoys of trucks loaded with hardwoods past their checkpoints.

Land-hungry migrants, many of them miners who lost their jobs when loss-making state-owned *mines closed down, are also* entering into the lowlands.

Close to the deforestation front line is the ecological reserve that *was established under the pioneer*ing 1987 debt-for-nature swap. The Estación Biológica del Beni, a *135,000 hectare reserve, lies in the* forested foothills of the Andes.

An important part of its work is *developing sustainable develop*ment strategies. "Increasing agricultural production reduces pressure on natural resources. Settlers do not destroy the forest for fun, they do it to grow food. So we try to take our knowledge to them," said Carmen Miranda, assistant project co-ordinator. However, her work is being swept aside by an avalanche of migrants.

Aid workers say the government has done nothing to organise the new settlers. They receive no support or technical guidance, so they quickly degrade the fragile forest soils. And as crops fail, they advance deeper into the forest.

Meanwhile, promising mineral deposits have just been found in *eastern Bolivia. The government's* draft legislation may meet international environmental standards and multinational *mining companies* are taking more care in protecting the environment; still, mining would represent yet another threat to the region.

Yet, as Carlos Arze of the government's National Environment Fund, points out: "You have to balance the deterioration of the environment against the in-flow of resources to a very poor country."

The drug trade, the most extreme form of free enterprise and Bolivia's largest source of hard currency, is also wrecking the environment. *Farmers plant coca* bushes in unsuitable soils which are rapidly denuded, forcing them to drench the soil with pesticides and artificial fertilisers. As if that were not enough, huge soyabean farms that have sprung up around the boom town of Santa Cruz de la Sierra, the eastern region's principal city, eroding the soil and creating small deserts. The sand dunes have even become a tourist attraction.

The World Bank is encouraging the government to limit the damage by introducing land use controls, environmental impact studies and land pricing mecha*nisms* to curb land speculation. But officials are at a loss as to how such policies would be made *to work* in a country where effective government barely exists outside big cities.

Even so, there is hope. Growing environmental awareness and disgust at corruption, plus pressure from *aid donors* and international development agencies, is beginning to make the government take the environment seriously.

FINANCIAL TIMES SURVEY

WEST NORFOLK

■ Fast trains will soon bring the area within 100 minutes of London: PAGE 3

Wednesday May 13 1992

FOR LONG a quiet town, somewhat off the present century's beaten tracks, King's Lynn was not always so. The capital of western Norfolk, between Norwich 40 miles away and the Fens, King's Lynn was in medieval times one of England's premier towns, gaining the first of many charters as far back as 1204.

It owes its early growth from the 11th century onwards, to its position on the eastern bank of the Great Ouse estuary, and to the strength of the East Anglian economy in those times.

The town grew prosperous as a centre for exporting the products of the local wool trade and for importing the fashionable goods and necessities of the day from other important centres across the North Sea, in particular the cities of the Hanseatic League.

It was after visiting Lynn in 1215 to feast with the burghers that King John, in one of the best-remembered episodes in English history, lost his jewels in the Wash, the bight into which the Great Ouse pours its waters.

The legacy of King's Lynn's long period as a great port remains in one of the finest collections of medieval domestic buildings in England, in its two market squares, in King Street and Queen Street, and in the lanes which lead back from them to the town's old wharves.

It boasts two guildhalls, including the oldest in England, the Guildhall of St George, dating back to the early 15th century, and the Guildhall of the Holy Trinity from 1421. St. Margaret's church is even older, with parts going back to the 12th century.

As late as the 18th century, King's Lynn remained a fashionable town, not quite in the same league as Bath or Cheltenham, but still a desirable resort in which to spend part of the year.

The most recent boost to the fortunes of the area came in the 1960s when an overspill agreement was signed with London. This has meant a virtual doubling of the population of King's Lynn to what it is today, just over 40,000. West Norfolk as a whole, which also includes the market town of Downham Market, as well as the royal estate at Sandringham, and the seaside resort of Hunstanton, is home to around 135,000 people.

A number of companies, particularly in food-processing and agriculture-related engineering, have been attracted to the area – partly through government grants – to supply jobs for the enlarged population. The region also remains one of the most prominent vegetable growing areas in the country, although fewer and fewer people are employed in this sector because of mechanisation.

Though there have been some job losses in the present recession, including the closure of Anglia Canners at a cost of 200 redundancies, most of the companies which arrived in 1960s and 1970s, such as Campbells Soups and Sun Electric, have remained and many of them have expanded. Unemployment for the area at just under nine per cent is high for East Anglia, but it is not out of line with the Midlands or the national average.

The port's potential is limited because of the heavy tidal drop and the distance from the open sea. But Associated British Ports, the owner, recently made a £3m investment in a new dock – as a result, the port can now accommodate vessels carrying 5,000 tonnes of cargo as opposed to 3,000 tonnes.

The local authority's aim now is to attract high technology or service employment to capitalise on the area's advantages as a location – "the national economy has been changing. There are fewer blue collar or industrial jobs, and more and more jobs in new white collar service industries and high technology concerns.

"Frankly, we have not been getting our share of these new industries," comments Mr Richard High, the council's chief economic development officer.

The drive to attract new investment is timed to take advantage of British Rail's decision to electrify the railway line from London to King's Lynn. This will cut the journey time from well over two hours to 100 minutes.

The new service is due to start next month. To secure it, the King's Lynn and West Norfolk Borough Council have had to promise a revenue guarantee to British Rail of £650,000 over the next five years.

The council has also secured agreement from the Ministry of Transport that the three routes which pass through West Norfolk, the A10 from King's Lynn to London, the A17 from King's Lynn to Newark, and the A47 from Peterborough to Great Yarmouth will all be dualled or upgraded in the next few years.

The rail link is seen as particularly important, as Mr Alan Pask, the chief executive of the West Norkfolk District Council points out.

"The faster rail service is the key to attracting new investment. From next month, King's Lynn will be up on the board at King's Cross in London as a destination. We will be locked into Europe, and the idea that we are remote and inaccessible will be gone."

The shorter journey time is not expected to result in large numbers wanting to commute to London (although Mr Pask points out that by rail King's Lynn will be closer in journey time to London than Norwich and people do commute from Norwich).

It will, however, become viable to relocate back office or administrative functions in West Norfolk while maintaining a small headquarters in London. Executives will easily be able to travel between the two bases.

It is companies willing to do this that West Norfolk, with the help of agents in London, is targeting. "We are targetting companies in the services or high technology sectors that would employ up to 500 people. We could take a company wanting to employ 1,000 but not too many of them," says Mr High.

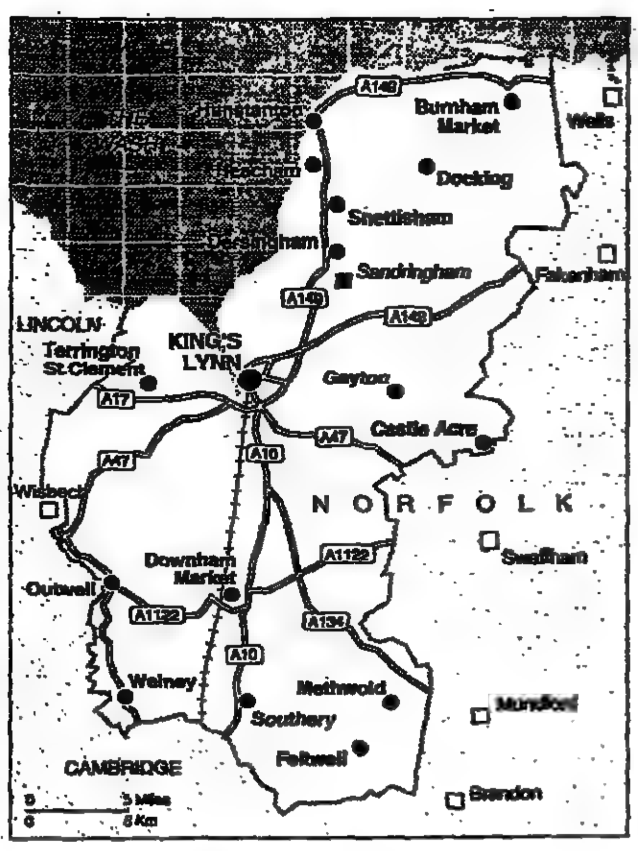
Apart from better communications, the area has other attractions. The 9 per cent unemployment rate represents 4,500 mostly skilled male workers. There is a very low female activity rate. There could be a further 4,000 women looking for jobs if a bank or insurance company decided to established itself.

Property and land are also modestly priced. Residential housing can be half the cost of something similar in the south east. Industrial land costs £100,000 an acre – cheap, even compared to Peterborough.

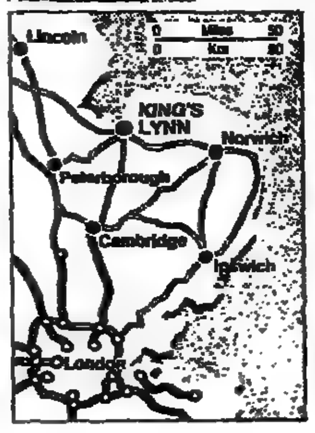
Office rents or rents for B1 office/light industrial properties can be as low as £5 to £6 a sq ft which compares with £15 in Cambridge.

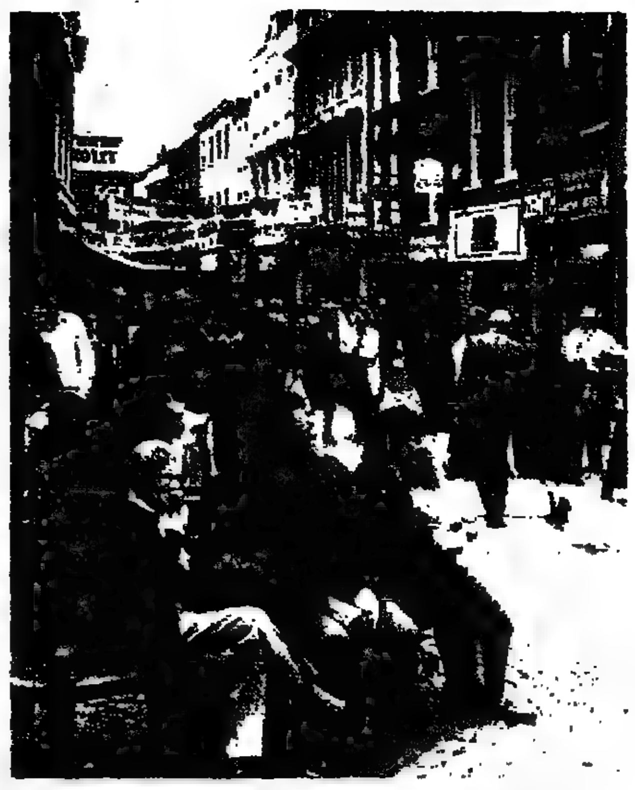
One problem is that there is hardly any modern B1 property on the market as low returns have meant there has been little speculative property development. There is plenty of land scheduled but very little new B1 type premises – the kind that high technology companies like to move into – has been developed. Local authority officials are, however, convinced that this problem will not be difficult to overcome.

Initially, too, companies which want to design and build their own properties will be targeted.



Alan Pask, chief executive of King's Lynn and West Norfolk Borough Council; and Dick High, economic development officer





Pedestrianised shopping in historic King's Lynn, above; and top right, riders on the Sands near Burnham Overy.

Manufacturing and agriculture are leading regional employers

Financial service groups targeted

AGRICULTURE still accounts for seven per cent of total employment in West Norkfolk, compared with a national average of two per cent. There are also between 3,000 and 4,000 jobs in tourism.

But manufacturing is the main employment sector accounting for more than 40 per cent of jobs, although the largest single private sector employer – on a year-round basis – is Foster Refrigerator, which employs employs 650 people. Some of the food processing companies have seasonal workers – thus Frigoscandia, for example, employs between 730 and 438 at various times of the year. It has been established there for 26 years.

The manufacturing economy of West Norfolk today is shaped to a great extent by the influx of companies in the 1950s and 1960s. They were attracted either by government grants or the availability of quality raw materials – namely vegetables and other agricultural products.

Amongst the larger companies there is an emphasis on food processing, refrigeration and engineering. As in many rural areas, there are number of small but specialised manufacturing concerns in sectors such furniture making, crystal glass-blowing and in printing, stationery and artists' materials supplies.

In the main sector of manufacturing and food processing, some of the well-known names include Campbell's Soups, Master Foods, Plumrose, Del Monte, British Sugar and Frigoscandia.

Many of them established factories in the area in the 1960s. According to Mr Nigel Payne,the manufacturing and logistics director of Campbell's Soups, the location of King's Lynn was chosen in the early 1960s – not only because government assistance was offered but because of the plentiful supply of good quality produce such as tomatoes, mushrooms and other vegetables.

Modern housing in traditional style in the old town, King's Lynn

Mr Charles Abbs, Frigoscandia's general manager, says: "We are a frozen food processor, packer and storer. We pack around 75,000 tonnes a year – of that, around 25,000 tonnes are either peas or potatoes in some form."

The company, originally a cold storer, sees itself as service-provider – "we don't actually *make* anything – we package for 'own-label' customers, such as Tesco and Safeway."

But Foster Refrigator (UK), although sometimes identified with the food-processing sector, is a leading manufacturer of refrigeration equipment for the commercial, retail and hotel sectors. It arrived in King's Lynn in 1965.

Some larger companies were located in the region before government assistance was available. For example, Dow Chemicals has been in King's Lynn since the mid-1950s.

Mr Ed de Graaf, the UK manufacturing manager of Dow, says that the company set up in the area because of its agricultural emphasis and the subsequent market for insecticides.

Cooper Roller Bearings, which employs 330 in King's Lynn, and describes itself as a manufacturer of split cylindrical bearings, has been in the area since the late nineteenth century. It grew out of a company formed by an inventor called Thomas Cooper who built, sold or rented steam tractors for agriculture.

Porvair, one of the area's high technology companies, has established an international reputation in microporous technology was originally part of the Choride group with facilities in the area.

Sun Electric UK, which employs 250 people in King's Lynn is another high technology company. It is a subsidiary of Sun Electric Corporation, a world leader in the supply of vehicle diagnostic, exhaust emission-testing and wheel service equipment to automotive industries.

The company originally set up a facility in West Norfolk in 1967 to service clients in what was then the European Free Trade Association (EFTA) trading region of Scandanavia, but not because there were government grants available.

While companies have found that while the old problem (now about to be eased) of poor communications has added to transport costs, this difficulty was more than offset by the relative cheapness of land and property and by the right labour availability. Mr Ed de Graaf comments: "King's Lynn is a relatively low-cost area and we are successful here. We have no thought of moving."

There has, however, been one conspicuous casualty of the recession: Anglia Canners was taken over and closed down with the loss of more than 250 jobs.

But most companies have grown and expanded. Sun Electric, for example, has invested more than £1m in recent few years and expanded its factory space from 55,000 sq feet to 67,000 sq feet.

Campbell's Soups has increased output in volume terms by 40 per cent in the past 10 years, although with a reduced workforce.

Mr Abbs at Frigoscandia says: "We have increased our output each year for the past 10 years, even though there is a static market for frozen vegetables."

Although the manufacturing sector in the region is generally in good health, the area has not attracted larger companies for some time. Given that food processing is a "mature" industry, with companies vying for bigger shares of a stable markets, and given that communications to the region are about to improve, the local authorities are keen to attract new investment to West Norkfolk, particularly in the financial services and high technology fields.

Stewart Dalby

Old Hanseatic links are being revived in a bid to attract more visitors

A well-kept secret is about to be revealed

AT THE north end of King's Lynn, the last fishermen's yard in the old fishing quarter, next to the port, has been rescued from oblivion. Here, at True's Yard, two tiny restored cottages stand testimony to the days of fishing under sail and form a home for decades of maritime data.

Just around the corner there is a different sort of local colour – the tattooist's shop window displaying an astonishing variety of designs.

Walk through a couple of twisty, narrow streets and you suddenly find yourself in the Tuesday Market Place, a huge car park most of the week but transformed on Tuesdays and Fridays into the market for which it was designed in the twelfth century.

Around the marketplace stand the handsome merchants' houses dating from the prosperous days when King's Lynn was one of just half a dozen English ports allowed to join the Hanseatic League, a protective trading partnership of north European merchants established in the fourteenth century.

Banks, hotels, pubs and other businesses may have come and gone in the marketplace, but its character and beauty are undiminished. Go south along the east side of town, avoiding the ugly, pedestrianised High Street, taking in the Guildhall of St George, the oldest guildhall in England and home to the annual King's Lynn Festival, the ornate Customs House built in 1683, and arrive at Saturday Market, a focal point of the town since the early 1100s. It, too, houses cars every day except, naturally, market day on Saturdays.

Here stands St Margaret's Church, begun in 1100 by the first Bishop of Norwich, completed in the thirteenth century and largely rebuilt in the eighteenth century.

At the front door are marked the flood tides which have reached it – the last and worst was on January 11, 1978. Opposite, stand two buildings with chequerboard flintwork: the Victorian Town Hall and the Guildhall of the Holy Trinity, built in 1421 and home of King's Lynn's treasured regalia, including the renowned King John Cup and Sword (both fourteenth century, made at least 100 years after John's death).

The attractions of King's Lynn have been West Norfolk's best-kept secret, according to Mr John Barrett, head of tourism and leisure for King's Lynn and West Norfolk Council.

His department is going to change all that. They are about to start a five-year marketing campaign for the town, drawing extensively on its links with Germany through the Hanseatic League.

"There is a unanimity among people of the town that we have by no means reached the full potential for visitors without spoiling the facilities," he says.

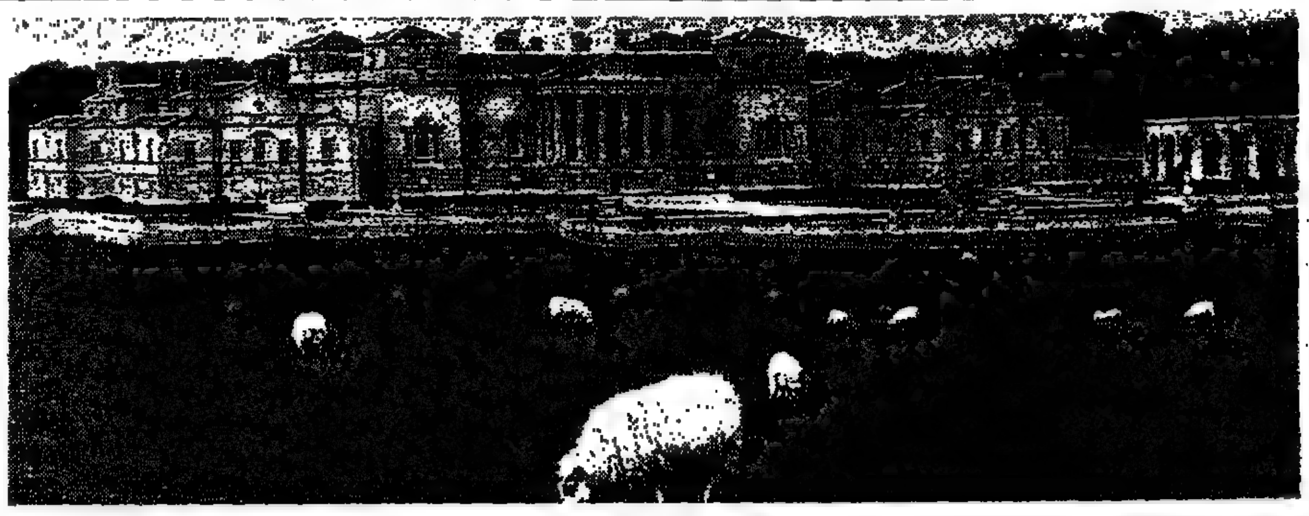
Tourism has become the second most important employer in the area after agriculture since Anglia Canning closed down, but much of the employment is seasonal.

Mr Barrett's aim is to extend the length of the season as far as possible, and the promotion of the historic town as a tourism centre is central to that aim.

In October, the council plans to spend £80,000 on improvements to the already excellent tourist information centre (housed in the guildhall heritage centre) and develop the gaols behind it as a visitor attraction.

Phase two will develop more of the town hall complex with a video to bring the history of the town to life. Hopes are high for 40-50,000 tourists a year.

Mr Barrett's brief is a huge one. West Norfolk is England's fifth largest district council by area with a population of 130,000.



Sheep grazing at Holkham Hall, above, the seat of the Earls of Leicester

Its traditional catchment areas for tourists are Cambridgeshire, Bedfordshire, Northamptonshire and Leicestershire, particularly Peterborough.

There is also an increasing number of visitors from southern England, Dutch and German tourists, via Harwich, and a significant number of French.

Although the council also promotes the pretty town of Downham Market and the watery fens as tourist attractions, the main pull for visitors is the stretch of coast along the Wash from King's Lynn, up past the royal parks of Sandringham, the lavender farm at Heacham and on to the neat seaside resort of Hunstanton. The town (resident population 5,000) receives a million day-visitors a year and 100,000 staying-visitors (compared with Southend, which takes in 2.5m day trippers and has a population of 130,000).

Hunstanton does not seem to have been affected by the recession, neither has it suffered the decline of other British resorts over the last 10 years. The council began investing in 1981, when it bought the resort's Princess Theatre, continuing in 1984 with the construction of the seafront Oasis Leisure Centre, complete with indoor and outdoor swimming pools, toddler facilities, squash courts and indoor bowls hall.

Tourism has become one of the most important employers in the area, reports ANNIE WILSON

"We have continued to upgrade and develop facilities," Mr Barrett says. "It represents a huge investment in basic revenue terms in keeping the place neat, tidy, clean and attractive to visitors, keeping the toilets clean, and as a result we receive many unsolicited testimonials every year. It costs us, but we were the only Norfolk resort to win the Blue Flag award (from the Tidy Britain Group)."

Although Mr Barrett believes there is scope to improve the facilities of Hunstanton, finding more car parking space would be a problem. The council is trying to persuade British Rail to reinstate the now defunct King's Lynn to Hunstanton line with a steam train – a move which proved remarkably popular along the coast at Sheringham.

Next door to the Oasis centre is The Kingdom of the Sea, a private development by Pleasureworld which they have since replicated in Great Yarmouth. It is a hugely successful display of fish in natural settings and, like the Oasis, provides excellent family entertainment, whatever the weather outside. Attracting Pleasureworld to Hunstanton was a great success for the council and they have taken careful note of the little things that please their customers.

"This was the first development Pleasureworld made in eastern England, purely because of the number of visitors to Hunstanton and the attention we pay to our facilities," says Mr Barrett.

"We lay great emphasis on getting the basics right: the dog warden concentrates on visitor areas and Hunstanton has the highest proportion of litter bins – it's what sets us apart."

His department is also evangelical about their way of doing things and anxious that everybody who comes into contact with tourists treats them with care.

To this end, the council has established the West Norfolk Welcome, an introduction to customer care for retailers which costs little but teaches the benefits of good service.

"We have one of the most efficient relationships with the the private sector in any local authority," Mr Barrett claims with some pride.

"We're always invited to any meeting of any organisation involved with tourism, and likewise representatives of those bodies attend our tourism sub committees."

For the sake of King's Lynn's best-kept secret, one must hope he is not too successful.

Fast trains will soon bring the area within 100 minutes of London, says **Tim Burt**

All change on the misery line

TRAINS WILL leave King's Cross station in London this morning within three minutes of each other. One, the 08.45, boasts air conditioning, comfort and a full restaurant service. The other, the 08.48, has less style. It is cramped and spartan, and the heating is erratic.

At 11.06 both trains should be pulling into stations. The first will have raced more than 230 miles north to Darlington; the second will have rattled less than 100 miles across the fens to King's Lynn.

While distant parts of Britain are served by modern high-speed trains, west Norfolk is linked to London by an indirect and unreliable service. The rolling stock is vintage: Eden was prime minister when it was new; and railway enthusiasts regard the semaphore signals as memorabilia.

There are few railway enthusiasts among the passengers who travel regularly across the dull flat landscape to King's Lynn. They have endured a shabby service for years on this dead-end line, one of British Rail's more neglected routes. But this is about to change.

BR is spending £20m on electrifying the line and £12m on new signalling. In spite of several delays, the work should be completed by August and fast trains will bring west Norfolk within 100 minutes of London.

Norfolk councillors claim that the credit for the improved rail link lies not with BR or the Department of Transport but with local government officials.

They saw their chance for electrification in 1986 when the 40-mile spur from Cambridge to King's Lynn was included in Network SouthEast rather than the diesel-minded Regional Railways.

Aware that Network SouthEast favoured electric services, council planners lobbied hard for King's Lynn to be plugged into the grid. Costs could be kept down, they argued, by using equipment left over from the electrification of the east coast mainline which was stored at Peterborough.

BR was not convinced. They were persuaded to proceed only after King's Lynn and West Norfolk borough council agreed to make good any losses on the newly-electrified line. This revenue guarantee scheme could cost the council £650,000 over the next five years, but Adrian Parker, the borough planning officer, thinks it is a worthwhile investment.

"Electrification would not have happened without local authority intervention. BR was relatively willing but the Department of Transport was hostile, so we had to put together the revenue guarantee scheme," he says.

As part of the rail improvements, several stations will be upgraded and councillors hope there will be increasing use of the freight marshalling yard at King's Lynn. The yard could be developed to serve the town's docks, where freight traffic is carried on a twice-weekly service to Hamburg operated by the German Washbay Line.

The port is dominated by coal shipments from Germany and Poland and exports of grain and scrap. But the docks are underused compared with their heyday in the 1800s when they were run by "old sixty-sixers" - dockers who worked from 6am to 6pm to load and unload cargo.

Now councillors hope to stimulate a new boom by promoting services to Hamburg as the best route to reach markets in eastern Europe.

Road hauliers, however, say the problem is not access to eastern Europe but access to East Anglia. Too many trunk roads are handicapped by single-lane traffic and routes where slow-moving farm machinery can cause long delays.

The Freight Transport Association says: "It is a difficult region in terms of roads. The east coast ports offer the best routes to the [European] single market, so we are anxious to see the principal routes improved."

The Department of Transport (DoT) denies trunk roads are being neglected. It is funding improvements to three routes which pass through west Norfolk: the A47 from Peterborough to Great Yarmouth; the A10 from King's Lynn to London; and the A17 King's Lynn to Newark. More than £236m is being spent on the A47; £32m on the A10 north of Cambridge; and £45m on the A17.

Most of this expenditure involves widening single-lane roads or converting them to dual-carriageway. The borough council, which wants all three trunk roads converted to dual- carriageway, thinks the DoT has under-estimated traffic flows.

"The growth in heavy traffic has been so rapid it is in danger of exceeding the figures planned for the year 2000," says Adrian Parker. "We need dual-carriageways but [improvements] have been under-funded. East Anglia as a whole has been grossly under-funded."

Better trunk routes should make King's Lynn the gateway from the east Midlands to the coastal ports, but Mr Parker thinks the region needs 15 years of road improvements before the town can fully assume that status. In the meantime, he hopes faster rail services and improvements to secondary roads will attract developers and new residents.

The town is looking southwards for its future. It sees itself as an overspill site for homebuyers and businesses which cannot be accommodated in Cambridge. More than 150 hectares of the town's Hardwick industrial park have been earmarked for expansion and electric rail services should make it an attractive option for commuters to the university city.

Threat to vegetable crops

Anxiety over drought

FARMING in West Norfolk is facing a potential crisis. Producers are warning of deteriorating output and fear their livelihoods are at risk because they can no longer rely on a basic natural resource - water.

A succession of hot summers and dry winters has led to one of the longest droughts this century, and some farms in East Anglia – the so-called 'breadbasket of England' – may not survive without heavy and sustained rainfall.

Farmers in the region have now endured 45 months of drought, forcing them to revise production plans and install costly irrigation equipment. They are now contemplating another difficult year following a winter in which average rainfall has fallen by almost 30 per cent.

The main victims of this shortfall are not the farmers practising prairie-style cereal production, although that too has been affected, but the vegetable growers who depend on careful irrigation of their crops.

More than 16,000 hectares of West Norfolk are used for growing crops such as potatoes, carrots and salad vegetables.

The farmers working this land warn that yields could be halved if water supplies run dry, and they fear the quality of their produce may fall to meet the rigorous standards set by their leading customers – the supermarkets.

For many of these farmers the "villain of the piece" is the National Rivers Authority (NRA). It controls water supplies through irrigation licenses and can impose restrictions and a total ban in times of shortage.

Last summer the NRA banned crop irrigation is some areas and producers fear a similar move this year could threaten their businesses.

Concern over water restrictions increased last month when the NRA announced more than 40 areas of eastern England where farmers using spray irrigators could face restrictions.

Mr Roger Hyde, the NRA's regional general manager, warns: "We face a very difficult year and we have already told more than 3,000 abstractors [farmers who use surface and ground water reserves] of the need to conserve water.

"Despite recent rainfall, underground resources remain at low levels and it is here that the risk factor has increased since last year."

Anxious to avoid restrictions on irrigation, the larger vegetable producers have invested heavily to install reservoirs enabling them to store water for summer use.

John Shropshire & Sons, one of East Anglia's largest vegetable producers, has spent about £100,000 on reservoirs. A spokesman for the company, which covers several farms including one at Southery near King's Lynn, describes the reservoirs as an "insurance policy" for the group's £32m turnover.

Many smaller farms, however, cannot afford such an outlay and they could be hit hard by NRA limits on water use – "those who can't invest in reservoirs may have to give up growing vegetables," according to the John Shropshire spokesman, who adds: "There might be a switch of vegetable production out of East Anglia to other areas where they have more water."

The prospect of lasting water shortages has already encouraged some farmers to diversify into non-production activities such as field sports – clay pigeon shooting and fishing – and conversion of farm buildings for light industrial and residential use.

Ironically, vegetable production could cease to be lucrative for all but the richest producers just at the time when farmers in other sectors - cereals and livestock - are considering it as an alternative source of income. Crops such as potatoes and peas look an attractive option to some farmers because they are not subject to quotas or levies imposed in Brussels. In the EC there is already a free market in vegetables, so producers will not face the upheaval expected in other sectors following the proposed withdrawal of subsidies when the Common Agricultural Policy is reformed.

Big farmers have been forced to install costly reservoirs to protect their livelihoods

Existing vegetable producers, however, warn that newcomers could exhaust limited water supplies and lead to cut-throat competition.

Other farmers, meanwhile, have diversified into livestock which can be farmed extensively and at low cost. East Anglia is not an area well-known for sheep but there are more than 28,000 in west Norfolk alone, and sales at the livestock market in King's Lynn have grown five-fold in recent years.

"We are now selling about 1,000 sheep a week," says Mr Barry Hawkins of Lynn Market. Pig sales, he adds, have doubled in the past year.

Livestock farms, however, are relatively unimportant to the west Norfolk economy compared with crop production. There are 46 farms relying on sheep, cattle, pigs and poultry, compared with more than 450 holdings involved in general cropping and vegetables, according to figures from the Ministry of Agriculture.

It is these farmers who are facing serious problems caused by water shortages. The National Farmers' Union, which represents about 2,000 members in Norfolk, is anxious to reach an agreement with the NRA over irrigation which will safeguard production. The union is proposing a deal in which the region will be divided into designated areas where farmers agree to use only half the water allowed to them under their irrigation licences. In return, the NRA has been asked to guarantee no restrictions on that reduced supply.

Although one group of west Norfolk farmers has agreed such a deal in the River Lark catchment area, NRA officials remain dubious about whether there will be many other agreements.

If the drought continues, the NRA says it will have no alternative but to impose restrictions on supplies, and officials warn: "If farmers ignore restrictions, they will be prosecuted."

In the worst scenario, producers who cannot afford to install reservoirs and then flout NRA limits in order to save their crops could face heavy fines and may have to abandon the business altogether. That threat has already encouraged some farms to amalgamate in a bid to cut overheads by sharing equipment and resources.

The drought has left farmers facing increased costs and the likelihood of produce which cannot command top prices. The future for those who are not able to farm on an industrial scale may be bleak.

Mr John Biles, regional director for the NFU in East Anglia, says: "We know that we're going to be worse off. Farmers will have to accept further losses or combine or sell."

Tim Burt

Fishing boats in the tidal harbour at King's Lynn

The port of King's Lynn

Versatility the key to success

THE PORT of King's Lynn has weathered the recession better than many. It has just received the biggest single investment for 100 years and its diversity and versatility have been the key to the port's ability to weather the economic storm.

In April a new £3m quay was opened by Associated British Ports, owner of the port, and by August a £1m Leibherr crane from Austria should be in place. For Mr David George, manager, these are tangible signs of his company's confidence in the port's future.

Port traffic totalled just over 1m tonnes in 1991 compared with 1.35m tonnes in 1987.

"Even though there's a recession we've held our own. It was very nice to get above the 1m mark in a very difficult year, and this year we've got off to a good start," Mr George says.

"The strength of the port is that we can handle anything and are blessed with lots of equipment."

The new Riverside Quay, built entirely with ABP money, was constructed on schedule by May Gurney and Co of Norwich. ABP has firm belief in investing for general infrastructure development – "trade has grown steadily over the last 40 years, the east coast is building traffic levels and we want to keep our share."

ABP also spent £500,000 on a new transit shed last year.

"Because the new berth is on the river, we can bring up ships which cannot come through the lock which has a maximum beam of 13.8m. That's all right for most short sea ships, but the dock can only accommodate a 3,000-tonne cargo. On the river, beam will be no problem, ships can go to a better length and we can go up to a 5,000 tonnes cargo, depending on the tides. It's a big leap forward. Our strength is being well-placed in the Wash, central for business - this is one of the reasons we have the confidence to invest; we want our share of the next 10 to 20 years' growth."

Unusually, ABP retained control of stevedoring at the port after the abolition of the dock labour scheme in 1989, when it cut the number of employees from 120 to 58: all are on personal contract, industrial relations are good and productivity has improved.

The port exports almost exclusively grain and sugar beet pellets. Imports are fertiliser and animal feed, which go largely to the agricultural areas of West Norfolk and Cambridgeshire, timber and steel for the Midlands and, crucially, 18,000 Skoda cars a year. The cars, and Zetor tractors, are brought in by Washbay Line, a customer of the port for 40 years, and conveyed to a Skoda factory one mile up the road where they are finished before distribution to dealers. Washbay Line runs a twice weekly service to Hamburg and its two adaptable vessels were purpose-built for King's Lynn's docks.

The general trading areas for the port are the former Soviet Union and various Baltic states, through Denmark, Belgium, the Netherlands, northern France and Spain. Steel comes from Italy, fertiliser from Africa, timber from Archangel in Russia, and the new quay is expected to expand this business.

The versatility of the port, Mr George says, has proved vital to its growth – "the strength of the place is that we can handle anything – we're blessed with lots of equipment and we are not dependent on heavy manufacturing, we are a one voyage charter port."

ABP owns 88 acres of land and would like a lot more, but it is constrained by the geography of the port. There is only three acres spare at the end of the dock, but any further letting would have to be to a port-related activity.

Mr George sees ample room for improvement in the road transport links to King's Lynn, particularly along the east-west corridor – "the case is proved, but investment in roads comes from the south and is not scheduled to reach us until the year 2000."

Diversity is the keyword for Mr John Latus who runs Anglia Shipping, which he sold to Anglian Agricultural Merchants in 1987 and bought back in November 1991. A shipping agent who handles chartering, haulage and warehousing, he takes pride in the company's ability to do anything and everything.

"Business has been good in the last three years because our diversity has enabled us to swap from one thing to another without difficulty. The new quay will open up business opportunities for us."

Anglia Shipping also brings in timber from Scandinavia and Russia, a seasonal trade which usually starts in March but which this year has been delayed until May because of Russia's foreign currency shortage. Mr Latus is confident that trade with the former Soviet Union will survive despite its present problems.

A 70-strong Fisher Fleet operates out of the port, all shrimpers, mussel and cockle dredgers, employing about 200 men in what has become a rapidly changing industry as directives from the EC have forced through new working practices.

Mr Chris Beach, deputy clerk of the Eastern Sea Fisheries Joint Committee, with which all the boats are registered, has witnessed the change – "fishing practices had hardly changed from medieval times to about 10 years ago, but now, with the advent of new shellfish hygiene rules from Brussels, the UK has had to come up to date.

"Fishermen used to go shrimping twice a week, cook them at sea and negotiate with the customer – now they're tied to a processing plant but it will take all the shrimps he can get, so it has meant an end to boom or bust for the fleet."

The 12-mile channel into the Wash and the pilotage for ships coming into the dock are controlled by the King's Lynn Conservancy Board, under the steady hand of Mr Maurice Kiddle, general manger and clerk. The board also owns South Quay, leased by King's Lynn Silos, which last year exported 100,000 tonnes of grain.

Report by Annie Wilson.
Pictures in this survey are by Glyn Genin

FT LAW REPORTS

Land to be sold at market price

FREEDMAN & OTHERS v BRITISH RAILWAYS BOARD AND ANOTHER
CHURCH COMMISSIONERS FOR ENGLAND v BRITISH RAILWAYS BOARD AND ANOTHER
Court of Appeal:
(Lord Justice Nourse, Lord Justice Taylor, Lord Justice Stuart-Smith):
April 9 1992.

BRITISH RAIL may sell superfluous lands at market value back to the successors of the vendors from whom it was compulsorily purchased, in that the statutory provisions giving the vendors a right of pre-emption at the original purchase price have been repealed.

The Court of Appeal so held when allowing an appeal by *the defendants*, British Railways Board and National Carriers Ltd, from Mr Justice Hoffmann's decision (*FT, March 30 1990*) *in two actions*, that they must sell derelict land back to *the Special Trustees for Saint* Bartholemew's Hospital and *the Church Commissioners for* England as the successors of those *from* whom they acquired it, for the original price.

LORD JUSTICE NOURSE said that 125 acres of derelict land north of King's Cross Station were to form the terminus of the Channel Tunnel rail link and a large commercial development. They were compulsorily acquired pursuant to the Great Northern Railway Act 1846, which empowered the company of that name to build the railway between London and York.

The land had since passed into ownership of the British Railways Board and National Carriers Ltd.

Mr Justice Hoffmann on pre*liminary issues in two actions* held that sections 57 and 102 of *the 1846 Act (which he held* had not been repealed) enabled the Special Trustees and the Church Commissioners, as successors of those from whom parts of the land were compulsorily acquired, to buy back three areas amounting to 52 acres ("the yellow land", "the red land" and "the green land") for the prices at which they were originally acquired.

There was a fourth area of eight acres ("the blue land"), which was acquired by agreement. *The judge held there was* no right to buy back the blue land.

The yellow, the red and the blue land was acquired from predecessors of the Special Trustees, and the green land from predecessors of the Church Commissioners.

The whole of the yellow, most of the red, parts of the green *and the whole of the* blue land was owned by British Rail. The remainder of the red and the green land was owned by National Carriers.

British Rail and National Carriers appealed against Mr Justice Hoffmann's decision on the yellow, red and green land. They contended that sections 57 and 102 did not have the effect he had attributed to them, or alternatively that they had been repealed. The Special Trustees cross-appealed against his decision on the blue land.

A "code" of provisions dealing with superfluous land in sections 127 to 132 of the Land Clauses Consolidation Act 1845 was incorporated into the 1846 Act.

Section 127 provided that the company should sell all super*fluous lands within 10 years* after expiration of the statu*tory period for completion of* the works. By section 128, it *first had to offer them to the* person entitled to the lands "from which the same were originally severed".

Section 57 of the 1846 Act, which applied to the yellow and the red land acquired from the hospital, provided that if "at any time or times" after completion of the railway any of the land was not used and required for the purposes for which the company was incorporated, "the company shall offer such land to the governors at a sum not exceeding the original price".

British Rail and National Carriers argued that "at any *time or times" in section 57* must, by virtue of sections 137 and 128 of the code, be read as meaning "at any time or times within 10 years after the expiration of the time limited for completion of the works". They said section 57 was merely a gloss on the code which varied it in certain respects.

Section 57 could be free from the time limit and still be a gloss on the code.

It was impossible to say that the time limit was incorpo*rated. In the context of the sec*tion as a whole it would be repugnant to common sense to say that "at any time or times" meant "at any time or times within 10 years after the expiration of the time limited by this Act for the completion of the works".

Mr Justice Hoffmann's conclusion on section 57 was correct. The section applied without any time limit to the *yellow and the red land. Unless* repealed by subsequent legislation, the hospital's right of preemption still existed. The same applied to section 102.

As to the blue land, the power to acquire it arose under section 45 of the Railway Clauses Consolidation Act, which authorised the acquisition of additional land by agreement.

The blue land was conveyed to the hospital on January 17 1851. The conveyance provided that if at any time after three years from that date any part of the land "shall not be used and required" for formation and completion of the railway, the company should give the hospital the right of pre-emption at the original price.

The hospital contended that that provision gave it a right equivalent to that given by section 102.

The judge rightly rejected that contention on the ground that once the *land had been* "used and required" the event which gave rise to the right could never occur.

The remaining question was whether sections 57 and 102 had been repealed.

Section 43 of the London and North Eastern Railway Act 1923 provided that the company should not be required to sell and dispose of any lands which were not required for the purposes of the undertaking.

Section 9 of the London and North Eastern Railway Act *1935 provided that the com*pany should have power to sell any land which was not being used for the purposes of its undertaking.

Section 59 of the British Transport Commission Act 1949 provided that sections 127 to 131 of the 1845 Act "and any other provisions to the same or similar effect" incorporated in any enactment relating to British Transport's undertaking should not apply to land acquired under that enactment.

Mr Justice Hoffmann con*cluded that none of those three* enactments had repealed section 57 or section 102.

He was right on section 43 of the 1932 Act and section 9(1) of the 1935 Act, under which there could only have been an implied repeal. Neither of them carried any implication sufficient to deprive the hospital and the Commissioners of the *valuable rights given by sec*tions 57 and 102.

In section 59(1) of the 1949 Act there was no implied repeal.

The question whether section 59(1) had expressly repealed sections 57 and 102 depended on whether sections 57 and 102 were provisions to the "similar effect" as the provisions of the code.

When one described one thing as similar to another, one meant something which so resembled the other as to make it either pointless or impracticable to differentiate between them for the purposes for which the description was needed.

The purpose of section 59(1) was to cancel the effect of the code and other provisions to the same effect. The effect of *the code was to enable others*, by rights of pre-emption, to acquire from British Rail or its predecessors superfluous land *no longer required for railway* purposes.

In the terms of the definition suggested, the effect of both section 57 and section 102 so resembled the effect of the code as to make it pointless to differentiate between them.

Sections 57 and 102 were effectively repealed by section 59(1) of the 1949 Act.

On that ground only the appeals should be allowed.

Their Lordships agreed.

For the hospital: Edward Nugee QC and Terence Etherton (Wilde Sapte)
For the Church: David Lowe QC and Charles Turnbull (Waltons & Morse)
For British Rail: Gavin Lightman QC, John Whittaker and Bridget Lucas (Nabarro Nathanson)
For National Carriers: Robert Reid QC and Simon Berry QC (McKenna & Co)

Rachel Davies
Barrister

PEOPLE

Mason moves to Balfour Beatty

Peter Mason has been appointed to replace David Cawthra *as chief executive* of Balfour Beatty, the construction arm of BICC engineering group.

Cawthra stunned the construction industry last September when he stood down from Balfour, one of the country's biggest contractors, to become *chief executive of Miller* Group, a privately owned construction company based in Edinburgh.

Mason was formerly executive chairman of Norwest Holst, the British construction group in which Compagnie Générale des Eaux acquired a 51 per cent stake in January

1989.

Norwest last year generated a pre-tax profit of £8.6m on a turnover of £338.52m. Balfour Beatty by comparison made a pre-tax profit of £37.7m on a *turnover of £1.9bn*.

Mason, now 45, graduated from Glasgow University in 1968 with a degree in civil engineering to join Sir Robert McAlpine construction group. Between 1970 and 1976 he was a contracts manager with Faircloughs (now part of Amec) before becoming construction director of Shanks & McEwan.

He joined Norwest Holst in 1980 and became chief executive in 1985 shortly before the company was acquired in a management buy-out. He became executive chairman in 1991 following the takeover by CGE.

■ Albert Harrison, deputy md of ALLIED COLLOIDS GROUP, has died.

■ John Morse, formerly project director of BP Chemicals, has joined HONEYWELL's UK industrial automation & controls division as director of engineering services.

■ Paul Hassin, previously sales and marketing director, of Microdot Aerospace, has been appointed sales director (Aerospace & Defence) of BINTCLIFFE TURNER, a subsidiary of TT Group.

■ Patrick Scott, former md of Datavision, is appointed md of Satellite Information Services in succession to *Christopher Stoddart*.

■ Darryl Hughes, formerly director in charge of Racal-Decca Service, has been appointed md of CHUBB ALARMS, part of Racal Electronics.

■ Peter Fernihough is resigning from WYKO GROUP but becomes non-executive chairman of its UK distribution division.

■ Grant Findlay, previously group finance director of Continuous Stationery, has been appointed group finance director of TIP EUROPE.

Departures

■ Raymund Palmer has retired and Roger Slingsby resigned from HC SLINGSBY.

■ Alan Clements has retired from THE SMALLER *COMPANIES INVESTMENT* TRUST.

■ Alan Boyd has resigned from TVS ENTERTAINMENT.

■ *John Giannopoulos has* retired from PATERSON ZOCHONIS.

■ Richard Smith has retired from Cazenove.

■ James Mellon has resigned from FIRST PHILIPPINE INVESTMENT TRUST.

■ Robert Moss has resigned from BENNETT & FOUNTAIN.

■ Patrick Donovan has retired after 30 years with ASSOCIATED BRITISH FOODS.

■ Eric Wintergill has resigned from LINCAT GROUP.

■ Terence Higgins, Worthing's MP since 1964, has stepped down from the board of UK motor retailer Lex Service. He has been a non-executive director since 1980 and will be 65 next January. Lex recently announced it is acquiring Swan National after losing its concession to distribute Volvo cars in the UK. The company stressed that Higgins' departure was entirely unconnected.

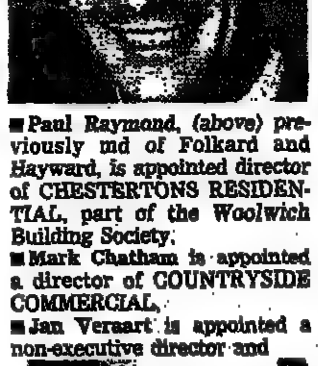
Constructive careers

■ British Land has appointed James Ritblat, the younger son *of its founder* John Ritblat, to the board of British Land Corporation, its principal management and operating subsidiary.

James Ritblat, who is concerned with property acquisitions, worked at Morgan Grenfell Laurie, a surveying firm, before joining British Land. British Land says his new appointment reflects his role as a senior executive in the company.

Nick Ritblat, his elder brother, is also on the board of British Land Corporation. He became a director of the parent company last September.

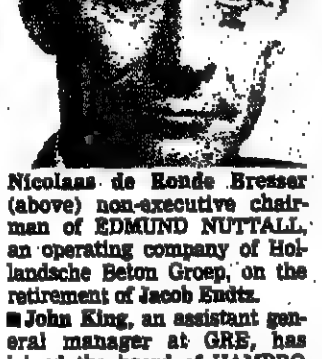
■ Alan Thompson has been appointed md of HOLROYD CONSTRUCTION; he moves from Monk Construction.



■ Paul Raymond, (above) previously md of Folkard and Hayward, is appointed director of CHESTERTONS RESIDENTIAL, part of the Woolwich Building Society.

■ Mark Chatham is appointed a director of COUNTRYSIDE COMMERCIAL.

■ Jan Veraart is appointed a non-executive director and



Nicolaas de Ronde Bresser (above) non-executive chairman of EDMUND NUTTALL, an operating company of Hollandsche Beton Groep, on the retirement of Jacob Endtz.

■ John King, an assistant general manager at GRE, has joined the board of HAMBRO COUNTRYWIDE, and David Snoxell, Geoff Nunn and David Cooper have resigned.

Civil servant joins Anglian Water

Dinah Nichols, one of the senior civil servants responsible for the flotation of the water industry in England and Wales *over two years ago, has* joined Anglian Water, one of the 10 privatised companies, *as* a non-executive director.

Nichols, 48, was head of the water directorate at the environment department in the run-up to flotation. She played a leading role in what was one of the most contentious and complex of all privatisations, and negotiated on water standards with the European Commission.

"We are proud to have her with us because of her wide experience of the industry," says Roger Dickinson, Anglian's company secretary.

There will be no conflict of *interest because the department* has been restructured fol*lowing privatisation. Nichols is* currently a deputy secretary in the environment department responsible for property holdings, construction and central support services. She has also been a director of a subsidiary of John Laing, the construction company.

In the run-up to privatisation, when some of the former authorities were very hostile to ministers and environment *department civil servants*, Anglian Water, under the chairmanship of Bernard Henderson, took a more conciliatory stance. The close contacts *with senior officials* have continued.

The company also announced the appointment of Jim Adams as an executive board member. Adams, 62, has been with Anglian for 18 years and is currently managing director of Anglian Water Engineering and Business Systems. The subsidiary is responsible for computer systems and for assessing projects on behalf of the core businesses of water supply and sewage treatment and disposal.

ARTS

Tennstedt's Debussy

Klaus Tennstedt, a conductor of naked artistic integrity and emotional intensity, is that rare beast, the genuinely inspired interpreter of the great Austro-German symphonic masterpieces. His Royal Festival Hall ventures into other repertories and musical languages have been scarcer, and less imbued with the fiery authority that marks, say, his Beethoven, Bruckner or Mahler with the London Philharmonic. I recall, for instance, a heartfelt LPO Verdi Requiem that sounded – felt – entirely unidiomatic; and on Sunday at the Festival Hall, the same could be said of his encounters with Debussy.

The LPO gave us the Three *Nocturnes* in the first half and *L'Après-midi d'un faune* in the second (followed by a Stravinsky *Firebird* Suite brash but full of life). The lack of Debussyan detachment and distance was comprehensive. The phrases of "Nuages" were lustrous but deprived of internal *ventilation*; "Fêtes", with an unhappy slowing of its central procession, was noisy, lurchingly imprecise; and "Sirènes", with an uncomfortably spotlit and often ill-tuned contingent of LPO Choir sopranos, meandered. Tennstedt seemed unable to gain imaginative entrance into the Debussy sound-world; in *L'Après-midi*, *linear distinctness was* continually sacrificed to an alien languorous warmth.

Because these were rawly honest performances, "personal" and unvarnished, searchingly undertaken and unstintingly delivered, their very wrong-headedness proved *fascinating. It was altogether* a peculiar concert. As the latest in the orchestra's current series of loose tributes to Diaghilev, it began with Shura Cherkassky playing Schumann's *Carnaval*: after a rocky start, he made the piano speak and sing with so much *echt-Cherkasskian feline wit*, idiosyncratic delicacy and impish brilliance that it felt a cruel deprivation not to be spending the rest of the evening in his company.

*

In the same hall the following evening, the BBC Symphony Orchestra under Andrew Davis gave excellent support to a Schumann pianist of a very different kind. This was Imogen Cooper, whose account of the Piano Concerto was wonderfully full of gentle, inward-turned imaginative perceptions. Miss Cooper caught the "domestic" *side of* the invention with unfailing aptness, penetrated its poetic nooks and crannies with quiet eloquence. I have not heard this pianist for a few years; in that time she appears to have blossomed as an artist.

Earlier, Davis and his orchestra had poured their plentiful supplies of energy and enthusiasm into the first performance of Philip Grange's *Focus and Fade*. This 20-minute orchestral fantasy in three linked movements displays an *easy command* of large forces, evident care in the linking and cross-referencing of ideas, and a disheartening shortage of identifying, clinching personality. Grange, who came to prominence at the start of the 1980s with a number of striking compositions *for small forces*, seemed here the retailer of just another anonymous "modern orchestral showpiece".

Max Loppert

Television/Christopher Dunkley

Drama strong on flashback

It is *remarkable how often* television dramas come along in pairs: two set in India, two about ancient history, two with eccentric policemen as their main characters. Last night's *Anglo-Saxon Attitudes* on ITV was the second within three days to begin its opening episode with the digging up of a *skull*, to feature Douglas Hodge (who played Declan in *Capital City*) in one of the main roles, and to use flashback not merely as a routine technique but as a primary structural element. The other was *A Fatal Inversion* which began on BBC1 on Sunday.

If you watched *Anglo-Saxon Attitudes* last night you will presumably need little urging to watch the other two parts. If you missed it, find someone with a cassette and bribe them if necessary to lend it so that you can catch up before next week's episode. This is one of those rare television productions in which everything works well: writing, acting, direction, locations, even the period detail which, refreshingly, is not rammed under our noses.

I cannot be so sure in the case of *A Fatal Inversion*, having seen only the first of the three episodes, but this, being a mystery story written by Ruth Rendell under her "Barbara Vine" pseudonym, is if anything *even more compelling* in its narrative tension. Having seen the hares that were set running in the opening episode it would be unthinkable to miss the other two. Whether you consider it fortunate to have two such excellent serials appearing simultaneously, or irritating not to have them better spaced out, presumably depends upon *your* attitude: do you see a glass as half full *or half empty?*

Since *A Fatal Inversion* is a thriller it is unlikely that there will be much talk about whether Sandy Welch's adaptation takes liberties with the original but, given Angus Wilson's reputation and especially the increase in regard since his death, we can expect those who would like to be thought "literary" to start squawking as usual about lack of faithfulness in Andrew Davies' adaptation of *Anglo-Saxon Attitudes*. It is nonsense of course.

Does anyone care that Laurents changed the Montagues and Capulets into Jets and Sharks for *West Side Story*? If so, what do they say about the liberties Shakespeare took when he pinched the story from Brooke's *Tragicall Historye Of Romeus And Juliet*? Or the way that Brooke played fast and loose in adapting from Boaistuau? Or Boaistuau's casualness when he lifted the story from Bandello's "Novelle"?

What we have in *Anglo-Saxon Attitudes*, regardless of its literary antecedents, is splendid television, full of solidly three dimensional characters, inhabiting a wholly believable world, with social, political, sexual and historical comment whizzing off like sparks from a catherine wheel. Set in the 1950s, but with its plot originating in an archaeological dig in 1912, it is essentially a comedy of manners largely concerned with the idiosyncracies and hypocrisies of the English middle classes.

Davies, now established as one of the best writers for the medium, either of his own work (*A Very Peculiar Practice*) or of adaptations from others (most recently Amis's *Old Devils*) has, of course, used techniques which rarely succeed on the printed page. As any true master of television (for example Dennis Potter) knows, you can move through time and space more easily in this medium than in print.

Davies toggles effortlessly between 1912 and 1950 and, having established Gerald Middleton as both a young man (Hodge) and older man (Richard Johnson with a quiet and controlled but *utterly telling* performance), he occasionally inserts the older version of Middleton into the flashbacks when we are, naturally, expecting the younger. The effect is a peculiarly powerful conflation of youth and age into a single life.

Because this serial tells the story of two generations of an English *middle class family* with one important in-comer from Europe, repeatedly uses flashback, and contains some explicit sex, it is difficult to avoid comparisons with *The Camomile Lawn*, but *Anglo-Saxon Attitudes* surely comes out well ahead. In *The Camomile Lawn* incident followed incident as one link in a chain follows another; the sex scenes, for instance, were quite fun but only loosely connected to other events and scarcely central to the plot.

But in *Anglo-Saxon Attitudes* it is vital that we appreciate the sexual passion between the young Gerald and Dollie if we are to understand the subsequent void at the centre of Gerald's life and the failure of his relationship with wife and family. In this drama the development of plot and character is more like the construction of a building, with the ground floor depending on the foundations, the first floor on the ground floor, and so on.

It is honest, comic, enlightening and *entertaining, so self righteous* lectures about television failing to stick to every last detail in the book should be seen for what they are: yet another example of the widespread desire to appear superior to television. No doubt there will be fewer squeaks of concern over *A Fatal Inversion* because less is expected of a thriller and there are fewer brownie points to be gained from an *officious defence of the book.*

Yet the opening episode suggests that we have here a very superior thriller indeed. This time the flashbacks are across only 12 years, and *the evidence suggests* that Hodge will be giving his best television performance *to date as the young father* and successful professional looking back to a teenage summer that began idyllically in the big country house which he inherited that year.

In the opening episode director Tim Fywell captured that quality of youth which sometimes seems like innocence, sometimes like idiocy, *sometimes like mere inexperience*: it is manifest in the unspoken assumption that *life is* endless and that there is consequently infinite time to laze, argue, or make love. It is a characteristic which few of us are lucky enough to sustain beyond the *age of about 20 and it is not the sort* of thing which is easy to convey in a television drama, yet here it seeped out of every frame. The tension arose from the stark contrast between that idyll and the suspicions aroused by the discovery of the human remains in the grounds of the country house. What on earth *happened* that *summer*, and whodunnit? It would take a very cold *fish* not to tune in next week.

Saturday brought the opening episodes of two new four-part drama series, *The Nightmare Years* on Channel 4 and *Frankie's House* on ITV. *Each* is about a young man newly arrived in a foreign country dominated by its military forces, in each case the man works for a news agency, in each case, as we know from history, a major war is in the offing, and both stories are about real people. In *The Nightmare Years* American William Shirer has just arrived in Berlin in 1934, and in *Frankie's House* Englishman Tim Page has just arrived in Saigon in 1964.

Douglas Hodge and Tara Fitzgerald in 'Anglo-Saxon Attitudes'

Theatre

A Slip of the Tongue/Leave Taking

The programme for *A Slip of the Tongue* contains another of those chronologies of events in eastern Europe from the late 1980s onwards *with which London theatre-goers* must by now be familiar. There is a very odd entry, however, for December 1989. It reads simply: "Romania – Vaclav Havel elected President".

Yet perhaps that is a deliberate slip of the pen. Dusty Hughes's play is based on a character from Czechoslovakia, where Vaclav Havel was *indeed elected President, but the* background is more Romanian and at times a *socialist* Ruritania seems not out of place.

Dominik Tatarka, the hero (of sorts), was a Slovak writer who was repeatedly imprisoned or internally exiled by the regime. As such, he had something in common with Havel. *Yet there the similarity ends.* In the play, Tatarka becomes Dominic Tantra. According to the *script*, he was constantly visited in his enforced rural retreat by a stream of women students, all of them claiming to admire his work. All of them bring him a Buddha as a mark of respect – by the start of the second *act, there are at least six buddha* figures in his cupboard.

The women are also *informers*, sent by the regime. Tantra deals with them easily enough by seducing them. It is when one of them tells him that the Berlin Wall has come down that his confidence ebbs and he claims to have become impotent. *Thereafter it is the women who* have to make the first move in the seduction process. *He does not wish* to become president of the new democracy and prefers to hop off to the Frankfurt book fair. To his credit he does not want an inquest into the past. The real Tatarka died in 1989.

The chief interest in this production is that it is by the Steppenwolf Theatre Company of Chicago with John Malkovich, one of its founding *members, playing* Tantra. *It bothers* me slightly that on the evidence of this piece *I* cannot see why the company is so widely admired. Malkovich gives a perfectly pleasant performance and has an attractively modulated voice. The women admirers are adequate, but there is not much to distinguish between them. *In short, there are no fireworks.*

Perhaps the weakness lies in the text. One is a little weary by now of hearing how eastern Europe admired America for its jazz and Coca Cola and even the joke of Tantra pausing while undressing one of the women to admire the Japanese zip on her skirt is not entirely new. *A Slip of the Tongue* hovers on farce, but it is never clear to which genre it is intended to belong. *I* suspect that both the play and the Steppenwolf Company would be much better on a smaller stage.

Malcolm Rutherford

Winsome Pinnock's *Leave Taking*, which won the 1991 George Devine Award, *is a play about the tension* between Caribbean and black British lifestyle. This has become an established tradition in British culture, with Jean Rhys's *Let Them Call it Jazz* first among many. *Leave Taking* mines a rich dramatic vein: generations of black British at variance in one family.

Enid left Jamaica as a young woman, and brought up her daughters, Del and Viv, in England. Both daughters have integrated, one by taking on the trappings of mainstream British culture, the other by succeeding at school. But when Enid visits an Obeah-woman for haruspic guidance, she realises she has repressed her roots in order to fit in. *A family friend*, "uncle Brod", *the* unassimilated voice of Jamaica, reinforces her memories of home.

The new generation has a wider choice. While Enid lists the sacrifices she made for her children, her daughter taunts: "I'm gonna have ev'thing you wanted but were too frightened to enjoy." The play ends *with a fragile compromise as new* black British reaches out to the old Jamaican.

The wonderful design (Trudy Marklew) conveys urban clutter and Caribbean space, giving visual reality to the forces which shape the characters. Large window frames with billowing curtains form an angle in which a living-room set is crammed. The acting maintains a high energy, and the action should gather momentum throughout the play's run.

Leave Taking presents the first all-black cast on stage at the Belgrade main house. This is surprising in a theatre with a Black Arts Events office, but understandable in a city committed to *multicultural* theatre, although black culture itself embraces great diversity. *Leave Taking* figures in a series Black culture and arts events: Martin Luther King was commemorated on April 24; Bob Marley is celebrated in an exhibition at the Polytechnic next month.

Andrew St George

Shaftesbury Theatre. Limited Season. (071) 379 5399
The Belgrade Theatre until May 23 (0203 553055)

A Washington/Dublin Messiah

I would hardly take space to review a *Messiah* – even a *Messiah* of superior quality – had not this one, among many other points of interest, brought forward a remarkable *mezzo, with the most alluring new* voice I've heard this season. She is Denyce Graves, Washington-born, 28 years old, a graduate of the Houston Opera Studio. I had heard of her – she has sung a clutch of Carmens in America and Europe – but I didn't know she was so good. My colleague Joseph McClellan, the critic of the *Washington Post*, who had heard her in Washington as Maddalena and in Elgar's *The Light of Life*, told me that every time he hears her she has taken a great leap forward.

Washington celebrated the 250th anniversary of *Messiah* with a reconstruction of the original, 1742 Dublin text. Miss Graves played Mrs Cibber, *the tragic (but also comic) actress* entrusted with "He shall feed his flock" (the whole of it, not shared with the soprano, as it was shared at Covent Garden the following year, between Mrs Cibber and Kitty Clive, a Lucy and a Polly from *The Beggar's Opera*), "He was despised," and "If God is for us". When Mrs Cibber died, Garrick said, "tragedy died with her." She was not a virtuoso vocalist, but, Burney said, "by perfect conception of the words, she often penetrated the heart when others, with infinitely greater skill, could only reach the ear."

In a splash of luxury casting, America's two leading countertenors, Drew Minter and Jeffrey Gall, played William Lamb and *Joseph Ward, the countertenors* Handel found in the Dublin cathedral choirs, the first assigned an aria ("O thou that tellest"), the other a duet with the tenor, and the two of them briefly entwined in a duet setting of "How beautiful are the feet". Curious to see them sitting by – appraising, admiring – during Mrs Cibber's songs, which both of them, in other versions of *Messiah*, have so *often sung with distinction.*

Handel had seven soloists in Dublin. In Washington, Benita Valente was his soprano (Signora Avoglio), Curtis Rayam was his tenor (John Bayley) and David Arnold doubled as the two basses (John Hill and John Mason). They were all on peak form, singing lightly and clearly, *purely tuned, singing on the words,* without pushing. The Smithsonian Concerto Grosso (in this Dublin version just strings, with trumpets and drums in a few numbers) played well.

The conductor was Paul Traver, and the choir was his University of Maryland Chorus, which has been *the glory, year after year,* of the Maryland Handel Festival – fluent, *athletic*, purely tuned, verbally acute. (The recession and the *starving* of funds to education last year broke off the festival's progress through the oratorios; but it seems that it may resume in October with *Hercules.*) Traver is a Handel *conductor who can combine* lightness and grace with earnestness and majesty. *This Messiah* moved surely.

And the "Dublin version" moves surely, too. As a generalisation, the first version of any Handel work is greater than the revivals where he adjusted the music to accommodate *a new cast.* The Maryland oratorio performances use first version as *base text. Messiah is perhaps an* exception; the 4/4 "Rejoice", for example, is surely an improvement on Dublin's 12/8 version. But the sequence of soloists in the Dublin *Messiah* – the delaying of the soprano's and of Mrs Cibber's "entrance arias" – is excellently dramatic.

Denyce Graves, in Mrs Cibber's songs, displayed a voice suggesting *that, to put it simply, America has* acquired a new Kathleen Ferrier, a singer whose tones run from the depths to the peaks – unforced, unpushed – in tones that are beautiful and moving, and one who communicates the sense of the words that she sings. A biographical note in the programme, however, *predicted a dull immediate future:* merely conventional, commercial star appearances as Carmen and as Delilah here, there, and everywhere. She is a more important singer than that. I look forward to hearing her as the Angel in *Gerontius*, in the *Matthew Passion*, as Gluck's Orpheus, and in the new works that our living composers, once they have heard her, will surely be *inspired to write for her.*

This *Messiah* was a part of Kennedy Center's Tribute to Germany, supported by the German government and sponsored by Robert Bosch, Daimler-Benz, the Deutsche Bank, Lufthansa, Mannesmann, Miles (a Pittsburgh subsidiary of Bayer), Siemens, and Thyssen, *along with "a generous* grant" from Du Pont and "gifts" from various American companies, foundations, and individuals. Handel was born in Germany; the Stuttgart Ballet (Marcia Haydee made her American farewell the day before this *Messiah*) was another part of the tribute. The patterns of *patronage have changed since* Handel's day. Jim Wolfensohn, the chairman of Kennedy Center, has evidently mastered them.

Andrew Porter

INTERNATIONAL
ARTS GUIDE
TODAY'S EVENTS

■ AMSTERDAM

Concertgebouw 20.15 The Royal Concertgebouw Orchestra with Schubert's Fifth and Ninth Symphonies. Fri: Peter Schreier *sings* Schubert. Sat afternoon: The Rotterdam Philharmonic. *Sat evening and Sun afternoon:* The Netherlands Philharmonic Orchestra *(6718 345)*
Muziektheater 20.15 Parsons Dance Company presents six choreographies by David Parsons, also tomorrow and Sat. *Fri: La Damnation de Faust* (6255 455)

■ BONN

Oper 20.00 Thomas Fulton conducts Nicholas Joel's new production of *Simon Boccanegra*, also Sat (773667). Tomorrow in Beethovenhalle: *Sixten Ehrling* conducts works by Schubert, Martinu and Tchaikovsky (773666)

■ FLORENCE

MAGGIO MUSICALE
Tonight's concert at the Teatro Communale, conducted by Zoltan Pesko, *is devoted to the music* of Xenakis, with Irvine Arditti *soloist in the Violin Concerto* (1991). Tomorrow and Fri: final performances of Giorgio Battistelli's new opera Teorema. Sat: Elgar Howarth conducts a Ligeti programme, including two world premieres. Mon: piano recital by Stanislav Bunin. Fri, Sat, Sun, Tues at Teatro della *Pergola: Happy Birthday Rossini,* new ballet by Karole Armitage. *The festival continues until* July 1 (277 9236)

■ FRANKFURT

Alte Oper 20.00 Santana in concert. Tomorrow: Ken Hill's musical The Phantom of the Opera. Sat: Alfred Brendel plays Beethoven. Sun *morning*: Lieder recital by Hermann Prey. Sun *evening: David Shallon conducts* the Rheinland Pfalz State Philharmonic *(1340 400)*
Opernhaus 19.30 Così fan tutte, also Sun. Tomorrow: William Forsythe's ballet Slingerland. Sat: La clemenza di Tito. Sat in *Schauspielhaus: Forsythe's ballet* Limb's Theorem (236061)
English Theater Kaiserstrasse 20.00 Fences, Pulitzer Prize-winning drama by *contemporary black American* playwright August Wilson. Daily *except Mon till July 4 (2423 1620)*

■ LONDON

Coliseum 19.30 Martin André *conducts Julia Hollander's* staging of John Buller's new Euripides opera The Bacchae, also Sat. Tomorrow: Don Carlo. *Fri: Madama Butterfly (071-836 3161)*

■ NEW YORK

THEATRE
- Guys and Dolls: a perfect production of Frank Loesser's musical (Martin Beck, 302 West 45th St, 239 6200).
- Jean Cocteau Repertory: *Samuel Beckett's Endgame* alternating with a triple bill of *one-acters by Vaclav Havel* (Bouwerie Lane Theatre, 330 *Bowery at Bond St, 677 0060).*
- The End of the Day: Jon Robin Baitz's new play about an expatriate British physician trying to find his moral centre in California. Closes May 24 (Playwrights Horizons, 416 West 42nd St, 279 4200).
- Conversations With My *Father: Herb Gardner's* bitter-sweet memory play about a Lower East Side bar-keeper, his two sons and the patrons of his tavern (Royale, 242 West 45th St, 239 6200).
- Jake's Women: Alan Alda *at his best in the new Neil Simon* play about an ageing writer coming to terms with the women in his life, past and present (Neil Simon, 250 West 52nd St, 307 4100).
- Ticketmaster answers *inquiries and sells tickets for* Broadway shows (307 4100) and rock/pop concerts (307 7171)

■ PARIS

DANCE
Palais Garnier 19.30 Ballet de l'Opéra de Paris in new *choreographies* by Odile Duboc and Daniel Larrieu. Daily till Sun (4017 3535)
Théâtre de la Ville 20.30 Carmen, choreography by Karine Saporta with music by Guy Cascales. Fri and Sat: Takacs Quartet (4274 2277)
MUSIC
Opéra Bastille 19.30 Michael Schoenwandt conducts a revival *of David Pountney's Los Angeles* production of Elektra, with *Gwyneth Jones, Leonie Rysanek* and Sabine Hass. Runs till May 29, next performance on Sat (4001 1616)
Opéra Comique 19.30 Gala opening of Johann Strauss festival with Der Zigeunerbaron, featuring orchestra, chorus and soloists from Vienna. Daily except Mon till May 23 (4286 8883)
Théâtre des Champs-Elysées 20.30 Sigiswald Kuijken conducts La Petite Bande in two Haydn symphonies and Mozart's Clarinet Concerto (Antony Pay). Tomorrow: Orchestre National de France (4720 3637)

■ PRAGUE

SPRING FESTIVAL
Tonight's performance of Smetana's symphonic cycle Ma Vlast at the Smetana Hall is given by *the Czech Philharmonic* Orchestra under Zdenek Kosler. Tomorrow: Jiri Belohlavek conducts a gala concert in the Rudolfinum, to mark the *re-opening of the House of Artists* after extensive renovation. Tomorrow and Fri in National Theatre: guest performances by ballet companies from Lyon and St Petersburg. The Brno State *Philharmonic Orchestra gives* a concert in the Smetana Hall on Fri, and cellist Lynn Harrell plays on Sat in the Rudolfinum. Sun: *concerts* by Pollini and the Borodin Quartet. Mon: recital by Josef Suk, accompanied by Rudolf Firkusny. Mon and Tues: Hilliard Ensemble (530293)
- *In addition to festival events* there are repertory performances *at the city's three main theatres.* The Prague State Opera has Verdi's Otello *tonight, Il trovatore* on Fri and Madama Butterfly on Sun. The Estates Theatre has Vaclav Havel's play The Garden Party tomorrow and Don Giovanni on Sat and Tues. The National Theatre has The Bartered Bride on Sun afternoon and Rusalka on Mon. More information from *city centre ticket agencies* (Bohemia, Na Prikope 16, 228738, or Melantrich, Wenceslas Square 38 in the passage, 228714) and theatre box offices.

■ ROME

Teatro dell'Opera 20.30 Mascagni's *Cavalleria Rusticana* with Agnes Baltsa, plus Alfredo Casella's ballet La Giara, repeated on Sat. Fri and Sun: Raina Kabaivanska in The Merry *Widow (488 3641). Tomorrow in* Teatro Olimpico: Ensemble Modern plays Henze's Nonet and Hindemith's Octet (323 4890)

■ STOCKHOLM

- Cullberg Ballet opens a short season at the Dansens Hus *tonight with the first of two* double-bills, Carmen and The House of Bernards (daily till Sun). A second programme runs from May 20 to 24 (753-99100)
- Royal Opera performances *this week include* Arabella, Boccaccio and Maria Stuarda (248240). The summer season at Drottningholm Court Theatre opens on May 22 with a new pantomime ballet after Beaumarchais, choreographed *by Ivo Cramer (660 8225)*
- *Sixten Ehrling conducts the* Swedish Radio Symphony Orchestra in a Wagner and Stravinsky concert on Fri evening in the Berwaldhallen (784 1800)

■ UTRECHT

Vredenburg 20.15 Muhai Tang conducts the Netherlands Philharmonic Orchestra in Brahms' Violin Concerto *(Dong-Suk Kang) and Borodin's* Second Symphony, repeated tomorrow. Sat and Sun: Hans *Vonk conducts Bruckner's Fifth* (314544)

■ VIENNA

Staatsoper 19.30 *Tosca with Mara* Zampieri and Giacomo Aragall. Tomorrow: La traviata (51444 2960)
Musikverein 19.30 Maurizio *Pollini. Tomorrow: Boston* Symphony Chamber Players (505 8190)

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MONDAY TO FRIDAY
CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0830-0900 (Mon) FT East Europe *Report – weekly indepth analysis* from FTTV
2130-2200 (Tues) Media Europe – what's new in European media business
2130-2200 (Wed) FT Business Weekly – global business report *with James Bellini*
0830-0900 (Thurs) Media Europe
2130-2200 (Thurs) FT Eastern Europe Report
0830-0900 (Fri) FT Business Weekly

Sky News
0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY
CNN
0900-0930 World Business This Week – a joint FT/CNN production
1900-1930 World Business This Week

Super Channel
1930-2000 FT Eastern Europe Report

SUNDAY
CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1800-1830 FT Business Weekly

Sky News
1330-1400, 2030-2100 FT Business Weekly

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France's road to Euro-union

MR MICHEL VAUZELLE, the French justice minister, was right to tell the National Assembly recently that, in ratifying the Maastricht treaty, France will not irrevocably be giving up sovereignty. It will simply be transferring "competence" to supranational EC institutions such as a European central bank. Mr Pierre Bérégovoy, the prime minister, meanwhile has reminded his compatriots that the Maastricht path represents a way in which France, far from losing independence, can regain a degree of control over monetary affairs at present largely ceded to the Bundesbank.

Despite these weighty statements of reassurance, the French *classe politique* is churning an extremely ragged furrow as it ploughs through the task of approving the European union treaty. A "yes" vote in the National Assembly to the constitutional change has never seriously been in doubt. But the Gaullists in the right-wing opposition have shown far more hostility than expected to plans for a common visa policy and national voting rights for non-French citizens, as well as to the single EC currency. Even in France's loamy soil there exists a vein of Euro-scepticism which many had presumed existed only in the clay of Britain. Though the French debate on Europe is arguably overdue, it is healthy that these doubts should be fully aired before the treaty passes to the statute books. The intensity of the debate has underlined that the French parliament must be consulted far more closely in later stages of the Maastricht process.

Soul-searching

Even after yesterday's final exchanges in the National Assembly, the French ratification carousel will continue to turn. The constitutional amendment has to pass before the Senate, and then to a congress of both houses of parliament at Versailles. A national referendum on the treaty may still be necessary later this summer.

Maastricht soul-searching is not confined to France. The different points along the route towards European integration, particularly the "convergence" road towards economic and monetary union, will bring considerable stress for national democracies and institutions. Although the journey is worth undertaking, the strains must not be underestimated.

Each country presents its doubts in a slightly different way. A majority of Danish voters is presently telling opinion pollsters that they will vote against the treaty in the country's referendum on Maastricht on June 2. Germany frets over whether the mooted new currency should be called the Ecu or the Euro-Mark.

Queen's speech

Britain's particular Angst centres on whether the Queen, in a speech in Strasbourg, was allowed excessive latitude to make light of differences in national parliamentary traditions. The semantic formulae eventually agreed for the monarch's address yesterday, in which she hailed the "diverse personalities" of the "European family", however represented a successful compromise; phrases suggestive of *Europe des patries* these days are likely to win approval in Bonn, not just Westminister.

Much national wrangling over Maastricht may prove to be heavily exaggerated. While the Germans are worrying that they will lose national monetary control, right-wing commentators in Paris are complaining that Maastricht will bring France under the heel of the D-Mark. This is an amusing but absurd contradiction. Ironically, the French ratification discussions are coming to a head when Germany's difficulties give its partners more leeway to cut interest rates than they earlier had. The more perceptive members of the French Gaullist party realise that, even if the treaty is ratified by all, the move to Emu cannot yet be considered irreversible. National parliaments will inevitably have the final say before exchange rates are irrevocably fixed.

Through its success in strengthening the franc by bringing inflation below the German rate, France has invested more political and economic capital in the project of European union than any other EC member. The pain suffered while securing that achievement explains why the French debate on Maastricht has been so grudging; it also explains, however, why France, of all EC members, can least afford to allow the Maastricht process to fail.

More housing choice needed

IT IS not always easy to reconcile choice and ownership, the two central themes of the Conservative manifesto. Last week's Queen's Speech included details of rents-to-mortgages schemes designed to give a further boost to home ownership. Yet with the housing market mired in a depression and mortgage repossessions at historically high levels, increasing choice in housing should now be the priority.

The growth in home ownership over the 1980s has been impressive. The number of owner-occupied homes has risen from 11.5m in 1979 to 15.5m last year, 1.4m acquired by council tenants under right-to-buy legislation. The incentives to become a home owner are attractive, with tax breaks for owner-occupiers and discounts for council tenants who buy their homes. The result is that 67 per cent of UK homes are owner-occupied, one of the highest levels of home ownership in the EC.

The government now proposes a measure to encourage a further growth in home ownership among council tenants whose income is too low to benefit from the right to buy law. Rents-to-mortgages schemes offer tenants part-ownership of their homes for payments no larger than their current rents. They can either buy the rest in the future, or cash in their share on selling the home.

However, pilot schemes have not been raging successes – despite the considerable cost of selling the idea to tenants. In Basildon, for example, of 6,000 tenants eligible, just 264 have applied for the scheme, and only 36 sales have been completed, with about 50 more in the pipeline. The tenants the schemes are aimed are entitled to better discounts if they wait until they can afford to exercise their right to buy.

Housing insecurity

In any case, it is arguable that home ownership is reaching its limits in the UK. The surge in repossessions last year suggests that many people who cannot afford it have been tempted into owner-occupation. With almost one in 10 mortgage-holders more than two months in arrears with payments, the growth in home ownership appears to have brought an alarming degree of housing insecurity.

Yet for many people, there is little alternative to home ownership. Privately rented accommodation now accounts for 7.5 per cent of homes and has been in decline for 70 years. There has been a pause in the decline in the last year, which may be attributable to the ending of rent control and security of tenure in the 1988 Housing Act. But the depressed housing market has also been a factor, forcing people to rent out homes they cannot sell when transferred to new areas and encouraging would-be buyers to rent until house prices stabilise.

Pressing need

The choice of "social housing" – subsidised rented accommodation provided by local authorities or housing associations – is just not available for many. Access is rationed by lengthy queues, and moves within the sector between areas are almost impossible. Increasingly social housing has become a ghetto for the aged, the jobless and low earners who cannot afford to buy their homes.

The pressing need is to widen choice by reviving the rented sector. And while some of this can come through the housing associations, financial institutions should be encouraged to support the private rented sector. Yet the only incentive available to developers – the badly targeted Business Expansion Scheme – is to be abolished next year.

New tax incentives may be needed to redress the balance between home ownership and renting. For example, exempting rented property from capital gains tax – in the same way as owner-occupied housing – would improve the long-term return on owning rented property. And treating rents as trading income rather than investment income would allow landlords to claim a more tax allowances and set business losses off against them.

Such incentives would require additional resources which should be found from the subsidy paid to owner-occupiers through mortgage interest tax relief. It is time to tilt the balance somewhat away from home ownership in order to widen choice in the housing market.

The leadership contest and signs of schism in opposition thinking are delaying a far-reaching post-mortem, says **Ivo Dawnay**

Shadow boxing in the Labour ring

Just a month after its humiliating fourth successive election defeat and only days after a drubbing in the local authority polls, the Labour party is still proving fiercely resistant to deep-rooted change.

A few fragile green shoots of new thinking have sprouted as to how the party should address its future. But for each there are numerous party traditionalists cautioning against further revision of long-held orthodoxies.

It remains unclear whether Labour is ready, able or willing to take the steps necessary to reverse what some think might be a trajectory of permanent decline – or for that matter to decide what those steps should be.

Evidence of disarray came last Sunday when a tentative olive branch from Mr Paddy Ashdown, the Liberal Democrat leader, met a chorus of public criticism from senior Labour figures. Despite this some are known privately to support the significant strand in the party now favouring a measure of inter-party collaboration.

Increasingly, there are signs of a profound schism between the "one last heavers", who advocate only a fine-tuning of policy and party institutions, and the radical reformers, some of whom want not only a Lib-Lab electoral pact but even a review of Labour's historic commitment to wealth redistribution.

The traditionalists cling to Harold (now Lord) Wilson's definition of Labour's objectives as "an irreversible shift of wealth and power in favour of working people". But the reformers counter that such goals merely confirm an outdated Marxist world view that threatens Labour's survival.

A prime example is Clause Four of Labour's constitution – the controversial commitment to state control of the means of "production, distribution and exchange". The traditionalists argue that to reopen the debate on what is largely now a symbolic clause would court unnecessary internal strife.

Others, like Mr Frank Field MP, say that tackling such anachronisms is essential. "Some say leave it alone as it is only symbolic. But the whole point is that the public understands symbols. That is exactly why we should discuss it."

With the election for leader and deputy leader in full swing, Mr John Smith and Mr Bryan Gould, the two contenders, are eschewing such controversies and concentrating on how best to woo the two main strands of party opinion without offending either.

In consequence, the perennial struggle for party unity is postponing a root-and-branch post-mortem that addresses the reservations of the electorate. One senior frontbencher, close to the Smith camp, recently remarked that the serious rethinking of the party's future would only come in about 18 months, possibly within two years of the next general election.

Two parallel though interlinked debates are now in train. The first attempts to address reforms to the party itself, in particular the role of the unions: the second centres on Labour's goals and policy agenda. Both are highly influenced by how the party interprets its recent defeats.

For some, like Mr John Edmonds, the GMB general union leader, the election result was a profound disappointment but not a disaster. Labour gained more than 40 seats, he has pointed out, cut deeply into the Liberal Democrat vote and was within 1,000 votes of victory in 17 – enough to have missed a hung parliament by an ace.

For that reason, he cautions calm. Union representation at the party's annual conference could be retained at a lower level, he says. It could be "democratised" by rule changes requiring delegates to be directly elected by co-workers, free from the control of the union leadership. The union role in Labour's electoral college could go altogether.

In the past four years, he argues, Labour discarded unpopular policies, but concentrated too heavily on damage limitation. Now it needs to improve presentation, get off the defensive and explain its agenda more clearly.

"Do we need a radical reappraisal of policies?" Mr Edmonds asked. "For God's sake, what do we campaign on if we abandon an element of redistribution, support for the public services, individual workplace rights and equal opportunities?"

But to the radical reformers, such prescriptions are seen as Micawberism gone mad – a recipe for further decline that fails to acknowledge the profound changes wrought by the Thatcher years. The new social landscape, they say, has sharply eroded collective loyalties and promoted individualism in a way that forces Labour to address its appeal not to the community as a whole, but direct to the citizen.

They point out that in a deep recession Mr Major managed to hold the Conservative vote steady at 43 per cent, leaving Labour more than seven points adrift. To the party's horror, polls showed that the increase in its so-called core votes – council tenants, unskilled manual workers and the unemployed – was less than among affluent professional voters.

Advocates of profound change say that without a reassessment of the party's paternalist view of the citizen's relationship with the state – indeed of the very nature of what a modern political party should be – Labour will end up as no more than an anachronistic pressure group for the industrial north, the Celtic fringe and the underclass.

At an election post-mortem seminar, the Labour Co-ordinating Committee – a group representing reformers in the constituencies – concluded that the party was now widely identified with the vested interests of the state sector, dominated by the public sector unions.

The adoption of a positive attitude towards the market and a readiness to embrace changes in the management of the welfare state were now a prerequisite for victory, it decided. "At the moment, we make voting for Labour sound like an act of altruism," Mr Mike Craven, the LCC secretary, said.

Where, then, do the two leadership contenders stand between what might be not unfairly be caricatured as the blue-collar traditionalists and the smart-suited radicals? The answer is: catering to both. As Mr Tom Sawyer, the National Union of Public Employees deputy leader and influential head of Labour's home policy committee has put it: "They are setting out their stalls to where they think people are, not where they think they ought to be."

Supporters of Mr Gould, the long-shot challenger, are keen to present him as both left-wing and reformist. But his differences with Mr Smith are often more of tone and style than of substance.

Charges that his advocacy of devaluation represents a reversion to the outdated politics of the 1970s are firmly denied. Mr Gould insists that while he is pro-Europe he is also determined that the progress to a single currency should embrace a continent-wide debate as to how to achieve it, while also securing full employment, a minimum wage and employees' rights.

All that is aimed at the old left. To the new radicals, his claim is that he has a breadth of imagination and an appeal to the south of England that Mr Smith lacks.

In Mr Smith's camp, initial irritation at the audacity of Mr Gould's challenge has turned to relief. It has allowed the shadow chancellor to rebut charges that the leadership was being decided by union bosses in smoke-filled rooms. He has pledged to reduce their future role in the party more swiftly than might otherwise have been the case.

To meet criticism of his tax plans from the party's reformist wing, he has offered a full-blown review of tax and benefit policy through a new Commission on Social Justice open – as would Labour's current review of electoral systems – to other interested parties including the Liberal Democrats.

Arguably more important as an indicator of his alertness to Labour's predicament are Mr Smith's observations that the challenge is to reconcile the interests of the two-thirds of society that are relatively well-off with those of the one third that is not. His analysis attempts to address the thorniest question for Labour: the resistance of modern income taxpayers to make sacrifices for the poor.

Both leadership contenders veer to the radical reforming wing of the party, claiming that everything except Labour's commitment to redistribution is open to challenge. But the left-wing candidates contesting the deputy leadership, Mr John Prescott, the transport spokesman, and Mrs Margaret Beckett, the shadow chief secretary, both reject as defeatist any accommodation with the Liberals or adoption of electoral reform. One front-bench critic, however, comments: "It is all very well for Prescott to boast about how they love him in Hull; what he needs to explain is why they hate him in Harlow."

Ultimately, this question of Labour's sharply differing appeal north and south of the Wash to Severn line is far more crucial than bickering over the merits of proportional representation or the value of a deal with the Liberal Democrats even if these issues must, eventually, be addressed.

Of the more prominent shadow cabinet members, only Mr Tony Blair, the shadow employment secretary, has dared raise the crucial issue of whether Labour has adequately addressed "a tide of history" that is altering the relationship between citizen and state. The Conservatives have already laid a claim to the title of champion of consumer interests. To be credible, many believe, with Mr Blair, that Labour must leapfrog them.

The best of the Kinnock legacy – the decline of dogmatic leftism and factional politics alongside the party's new-found determination to win – have all helped build Labour's credibility. Mr Smith, as the all but certain next leader, will be well-placed to add to that achievement not least by virtue of his authoritative yet pragmatic personality. What is more, a phalanx of Labour MPs – many of them frontbenchers, Scots, or new arrivals from the April election – believe above all in preserving the unity achieved over the past five years.

But in the bitterness of defeat, Labour's discipline and cohesion is again at risk. To reverse its electoral decline, the shadow chancellor must skilfully forge an alliance not merely between the "one last heavers" and the advocates of more deep-seated change. To achieve that end and to win over millions of disenchanted Conservatives, many now believe he must abandon Mrs Beckett, his preferred candidate for deputy, and harness Mr Gould to the cause.

PERSONAL VIEW

A dose of market reform

By Julian Le Grand

The Conservative government's market-oriented reforms are transforming the provision of public services in Britain. Advocates of markets or quasi-markets support them on the grounds that they promote efficiency, improve accountability and expand the range of opportunities and choices open to users. Critics argue that they may have such effects under certain favourable circumstances, but that those circumstances rarely arise in the provision of welfare services. Markets, critics add, have other, undesirable consequences, notably increased inequalities and administration costs that may offset gains in efficiency.

There are four conditions which must be satisfied if these reforms are to achieve their ends without adverse consequences.

- First, the market structure must be *competitive* on both sides, with many providers and purchasers. Competition is the engine of efficiency; if dissatisfied purchasers cannot take their business elsewhere, or if providers are at the mercy of monopolistic purchasers, incentives for efficiency or responsivness are reduced, and providers are driven into other activities.
- Second, purchasers and providers need access to cheap, accurate information, particularly concerning costs and quality. Providers must be able to cost their activities so as to be able to price them appropriately. Purchasers must be able to monitor the quality of the service they are purchasing so as to limit the opportunity for providers to reduce costs by lowering quality.
- Third, providers must be motivated at least in part by financial considerations. If, instead, they are motivated by a sense of public duty, they will not respond appropriately to market signals.
- Finally, there must be restricted opportunities for 'cream-skimming' – discriminating in favour of the less expensive user. Providers must not be able to avoid the costly or the troublesome user – the chronically ill patient, confused elderly person, the disruptive child from a deprived background. If providers can select for their clients the relatively healthy, the competent and the easily educable, then welfare services will not reach those who need them most.

It is too early to say whether these condition are being met in practice. However, preliminary studies at the University of Bristol, the London School of Economics and elsewhere indicate some disturbing signs.

In the case of health authorities, the typical market structure, far from being competitive, is often closer to a bilateral monopoly, with a single purchaser and, at best, a few providers.

In community care, the quasi-market is more competitive on the provider side but, as with health care, there are substantial information gaps. In response to this, purchasers often prefer to contract with voluntary organisations, whose non-profit motivation makes them less likely to exploit their informational advantage and to engage in cream-skimming.

However, precisely because such organisations are not largely motivated by profit, they lack the incentive to minimise costs. Hence any gains due to their reluctance to exploit their monopolistic position may be offset by a reduction in efficiency due to the absence of incentives for minimising costs.

The situation concerning GP fund-holding and education is different. In education, the market structure does seem to be competitive both for providers and purchasers. Also, the information gap is less than in other areas.

Moreover, there do appear to be signs of some, surprisingly rapid, changes in behaviour in the direction that theory would predict, with parents exercising their opportunities for choice and schools being motivated to make financial surpluses. However, there also appear to be preliminary signs of cream-skimming, with schools setting up formal or, more commonly, informal, means of selection.

GP fund-holding also appears to have considerable potential for improving efficiency. The quasi-market is competitive on both sides. More important, GPs have access to the best possible information concerning the quality of care. On the negative side, the costs to providers of negotiating with large numbers of fund-holders is high. And there is an obvious danger of cream-skimming by fund-holders in their selection of patients, although there is little sign of this happening.

None of this is to suggest that these changes have failed. The systems these reforms are designed to replace also had their inefficiencies and inequities. The re-election of the Conservatives last month means that the reforms will be given time to work their way through. Only then will it be possible properly to assess whether quasi-markets in the provision of welfare services are the way forward to a more efficient and more responsive system, or a retrograde move towards commercial exploitation and greater inequality.

The author is professor of public policy, and director of the School for Advanced Urban Studies, University of Bristol

Edward Mortimer

America's blurred borders

FOREIGN AFFAIRS

Brazil is sharply divided between rich and poor and has surprising similarities to society in the US

Flying from the US to Brazil last week, I expected a complete contrast: from north to south, First World to Third World, wealth to poverty, Anglo-Saxon protestantism to Latin catholicism. But one should always beware such simple categories. In Brazil, what did I find? First, I arrived in a city, Sao Paulo, which has 2m more inhabitants than Los Angeles and is at least comparable in the area it covers and the size of its buildings. Whenever you think you are getting near the edge of it, another clutch of skyscrapers appears on the horizon.

Much of Sao Paulo seems pure First World to the casual visitor. The streets and flyovers are thronged, or often choked, with Fiats, Volkswagens and other "European" cars (all made in Brazil, one soon learns). There are bank headquarters in clusters of blue glass towers. There are areas for pedestrians spaghetti junctions, leafy residential quarters. The metro (underground) is clean, modern and fast – suffering only from a lack of maps inside the carriages.

For two and a half days, I listened to bankers, management consultants, bond brokers, academics and the state governor, all discoursing on inflation accounting, the difficulties of the recession, the chances of the government's economic strategy succeeding, and the origins and nature of the foreign capital now flowing into the country. They discussed the signs of a change in Brazilian mentality as privatisation even of sacred cows like Petrobras (the state oil company) is widely debated, imports of goods and capital are welcomed, and the successes of other Latin American countries – Mexico, Chile, Argentina – are increasingly publicised and envied.

Of course, I knew that this was not the whole story. Although beggars in the street are not much more numerous in downtown Sao Paulo than in London, the *favelas* or cardboard cities of Sao Paulo are far more extensive. About 1m people live in these shantytowns which are dotted all over the city, though often crammed inconspicuously into narrow strips, underneath a flyover or beside a railway track, constantly invaded by noise, fumes and other forms of pollution. Another 3.5m live in *corticos* (crowded, multiple occupancy buildings).

On the third afternoon, I got Father Patrick Clarke, an Irish Catholic priest who has worked for 15 years in the city, to take me to the *favela* of Vila Prudente. It is a surprisingly cheerful place, probably because it is one of the older

A shantytown overlooks skyscrapers in Rio de Janeiro

favelas (dating from 1978). The 8,000-10,000 inhabitants have at least had time to convert their shacks into rudimentary houses, and to develop some institutions of their own, such as a crèche and a handicraft centre.

It reminded me of Palestinian refugee camps where, with a minimum of help and leadership from outside, the inhabitants have usually constructed some sort of township, with its own economy and society. And, of course, these Brazilians are also refugees, in a sense: refugees from the abject poverty of the rural north-east which makes even their present way of life seem privileged.

About a million people live in shanty towns which are dotted all over São Paulo

At least here they are not starving. The alleyways and schoolrooms are full of children, who infect you with their cheerfulness until you remember that for many of them the future holds little prospect other than drugs and crime.

Families are large, but have decreased over the last few years. It is now common for women to have their fallopian tubes tied after the third or fourth child, whereas in the past families of 15 were not unusual. Although this operation is still officially illegal, it is sometimes performed by doctors without the knowledge or consent of the woman herself.

More often, though, it is the fruit of a conscious decision on the woman's part, as the old rural logic of having more children as an insurance for your old age is replaced by the new, urban one of not having more than you can cram into your tiny home, or feed from your pitifully low income.

This explains why the latest census reveals Brazil's population to be "only" 145m (still more than 10 times what it was in 1900) instead of the expected 150m, and why the annual rate of increase has fallen to 2 per cent. That is still a very daunting figure, but should make it easier for President Fernando Collor de Mellor to confront the issue at next month's UN summit on environment and development ("Eco92"), which he is to chair. Unprecedentedly for a Brazilian politician, he wrote in a newspaper article last week that he intended to give the population issue priority, and would himself take the initiative in raising it at the summit.

The Catholic church, much blamed by First World social theorists for its hostility to birth control, does not seem to be actively opposing this change of attitude among the urban poor. And in any case, it is not the only or perhaps even the main conduit for their religious feelings.

Father Patrick sees his role as more political than religious in the traditional sense. He quotes Dom Helder Camara, the much revered (and reviled) archbishop of Recife in the north-east – "If I give bread to the poor they call me a saint; if I ask why they have no bread they call me a communist" – and says that his role is to help people ask and find answers to that second question. He is also full of praise for Sao Paulo's socialist mayor, Mrs Luiza Erundina, who has helped *favela* dwellers to set up housing co-operatives and move into proper homes – "an achievement any municipality should be proud of yet scarcely mentioned in the mainstream Brazilian media."

"That spire," says Father Patrick sadly, pointing at a church some half mile from the *favela*, "is very far from these people, culturally and economically". By contrast, the new pentecostalist protestant churches proselytise actively in the *favelas*, preaching a fundamentalist gospel without political overtones, and winning a substantial following.

Perhaps Brazil is not so different from the US after all. Per capita gross national product is not everything. Both countries are settler-colonial states which expanded to occupy the lion's share of their respective continents. Both have federal presidential constitutions which give great prestige to the head of state but rather little power, whether to push legislation through congress or to control the expenditure of states and municipalities. Both are wrestling, partly for that reason, with intractable public sector deficits – although the inflationary consequences in Brazil are much more drastic, and the recession much deeper. Both have very high income disparities between rich and poor, and an urban underclass increasingly given to violence, mainly against itself, but enough to make the rich flee into their own fortified suburban ghettos. Both feel ambivalent about celebrating the fifth centenary of 1492, because they contain remnants of indigenous peoples for whom that date marks the beginning of centuries of expropriation and genocide.

One important difference seems to be that Brazil, after 50 years of sheltering behind protective barriers, is now opening to the outside world, whereas the US, after 50 years of confident world leadership, shows increasing signs of insecurity and xenophobia. But then the US is plagued by a trade deficit, while Brazil is running a handsome trade surplus.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Legislation for pension security

From Mr Maurice Redman.

Sir, Your timely leader (May 11) outlining improvements needed to pensions schemes seems unexceptional apart from the suggested shift towards money purchase schemes. If these depend on the gamble on market performance and annuity rates at retirement day, they do not achieve the essential ingredient of a pension scheme – predictable and therefore reliable pensions.

Now is the time not only to legislate for fund security but also to remedy the shortfalls of the Fowler legacy, which is not achieving the quintessential tenets.

One is that we should all pay for our pensions as we journey through our working life. (But the abolition of compulsory membership of occupational schemes is now coupled with only voluntary personal pensions and is consequently resulting in an unacceptable proportion of people making no pension provision at all, so these will become an ultimate burden on the state).

Another is 100 per cent fully-transferable service between occupational schemes, ensuring maximum flexibility for the benefit of the economy and for individual career prospects.

The only financial beneficiaries of down-rated transfer values are the former or the new employers or both; a person changing his job should not be robbed in this manner when he has paid for his pension in good faith. The defensive but tortuous actuarial arguments (which adhere only to company considerations) ignore the essential national need that pensions need to be reliable. Personal pensions gain portability only by sacrificing reliability.

What is needed is complete interchangeability between occupational pension schemes such as exists within the "Club" in the public sector. Already many large company schemes match the Club in quality though not interchangeability. The Club scheme should become a model and perhaps even compulsory.

It must surely be a *sine qua non* that if a company is to underwrite any actuarial deficiency then it is entitled to any actuarial surplus but only as a contribution holiday and not to repayment, because a deficiency might recur.

Maurice Redman,
Acington,
3 Cramond Regis,
Edinburgh EH4 6LW

Cost pressures that will change the shape of the oil industry

From Ms Christine Baker.

Sir, I read with interest the Lex column regarding the oil industry (May 11) where the real problem was diagnosed as "not so much cheap oil as the financial legacy of the late 1980s". This tells part, but by no means all, of the story.

Companies are facing a declining net margin not just because of the restored downward trend in real oil values – which looks set to continue in the 1990s – but because of rising real costs. These are an equally important part of the profit equation, yet strangely ignored.

The industry is facing cost pressures on all sides; upstream, as exploration activity increasingly focuses on frontier, or relatively unexplored, areas; downstream, as product specification standards are tightened to deal with environmental issues.

In the US alone, it is estimated that the cost of clean air legislation will amount to some $40bn between now and 2000.

The leading companies will meanwhile continue paying the price of a largely unsuccessful and expensive diversification programme away from oil and gas in the 1980s through an ongoing process of restructuring.

For the independents spawned during the boom years, horizontal integration may be the next big step forward in the process of their evolution.

The industry's power base, having variously shifted between the owners and developers of the assets over the past 30 years, now seems to be moving towards the consumers. The industry as a whole will survive the trend, though perhaps not in its current form.

Christine Baker,
Nomura Research Institute,
1 St Martin's-le-Grand,
London EC1A 4NP

Auditors' image moves misdirected

From Mr Philip K Wood.

Sir, I am dismayed at the misdirected attempts of the auditing profession to reform its image (Letters, May 7). For example, the proposal for interim accounts to be audited is clearly self-serving and will add to audit costs. The profession is trying to widen the scope of its involvement at the same time as avoiding taking responsibility for the traditional audit.

A reversal of the "Caparo" decision is long overdue. There is no point in widening the scope of the auditors' remit if investors cannot rely upon the existing annual audit opinion.

Philip K Wood,
group financial controller,
director of treasury,
Reuters,
85 Fleet Street,
London EC4

No remit for back-door advertising

From Mr Chris Grayling.

Sir, I would like to clarify one area raised by Raymond Snoddy in his comprehensive feature (Management: Marketing and Advertising, "Turning to television for the power and the glory", May 7) about the broadcasting of company annual general meetings on BBC Select.

While the BBC believes that improving shareholder access to company information is perfectly in keeping with its public service remit, it is also important to ensure that the service does not allow advertising by the back door. So any mention of products on the new service must be clearly within the context of the meeting, and must not be promotional in tone.

The use of BBC airtime to cover events such as product launches will not be permitted.

Chris Grayling,
commissioning editor,
BBC Select,
80 Wood Lane, London W12

Plea is a sign of growing competition

From Mr David Porter.

Sir, I had just finished telling a New York conference that competition was developing in the UK electricity industry, when I read your report about National Power's plea to the new energy minister, Mr Tim Eggar ("Power chief sees threat to coal sell-off", May 5).

If Mr Eggar wants the two major generators to buy more coal from British Coal than they seem inclined to, he should avoid offering any bribe which might damage emerging competition in generation.

Much of that competition will come from clean, efficient gas-fired power stations and it is ironic that National Power's chief executive should be asking the regulator (Offer) to question the economics of its competitors' gas fired projects. What he did not say is that National Power is building several such stations and that these will also displace coal-burning plant. Perhaps National Power's special pleading is a sign that the business is becoming more competitive.

David Porter,
chief executive,
Association of Independent Electricity Producers,
Herodsfoot,
Liskeard, Cornwall PL14 4QX

OBSERVER

Défense de pooper

■ Paris mayor Jacques Chirac is determined to get to grips with the one enormous stain on his reputation for City management. He has declared war on his city's 200,000-strong canine population.

For the past nine years, Paris' front-line defence has been its squadron of green and white *motos crottes*. With an estimated 10 tonnes of dog dirt dumped daily on the city's 2,500 km of pavements, Chirac's pooper scooters have been kept on round-the-clock alert. Armed with vacuum tubes, they buzz around schlurping up every little mess in sight. But, as with painting the Forth Bridge, the problem piles up anew behind them.

However, the time has come, says Chirac, for the *citoyens* to take a stand. His officials cannot let the bill for running the *motos crottes* – FFr 48m a year – rise any higher.

So those Parisians who dare lift their eyes from the pavement should not be fooled by the delightful new posters by cartoonist Ronald Searle round the city, one showing a desperate owner on his knees, begging his dog to use the gutter. The propaganda is just a diversion.

Chirac's most potent weapon is a new list of fines of up to FFr 1,300 for owners of naughty dogs. Not only are the fines considerably tougher than comparable penalties in London and New York, but they also put the fastidious Swiss to shame.

Sticky problem

■ Meanwhile, in Brussels – a city already awash with lobby groups and trade associations – it is hardly surprising that the European Association for the Promotion of Handhygiene has so far gone unnoticed.

But the EAPH (slogan: United For Handhygiene) looks set to make a big splash with a press conference next week, when it will reveal the results of its inquiry into the behaviour of users of public toilets....

Seal of approval

■ Much play is being made of the government's search for new sources of statistics. But Observer hears that the much-maligned Central Statistical Office has found one satisfied customer – Marks & Spencer.

Apparently, Bill McLennan, the Aussie statistician drafted in to rehabilitate the CSO, so impressed Marks & Spencer's top brass on a recent visit, that Britain's leading retailer has agreed to drop its participation in a rival private scheme to collect retail information.

M&S reckons McLennan will knock the government's statistics into shape, so there is no point in duplicating efforts and supplying data to the rival project.

Tax tangle

■ The drift and indecision afflicting German government makes itself felt in ever-widening circles. Take the annual conference of German tax accountants in Würzburg this week.

Wilfried Dann, president of the accountants' professional association, has been railing at the growing legal uncertainty plaguing his industry. He has totted up that it is now 16 months since an income tax directive had been classed as a "final decision". Instead, the relevant authorities have taken to pushing out directives

"You don't look as if you're from Liechtenstein"

invariably qualified as "provisional".

The problem, he concedes, starts with the Karlsruhe constitutional court, which has a backlog of two years or more on key tax decisions. This encourages the accountants to lodge appeals on related cases, which might one day qualify for tax relief.

So the tax inspectors attempt to stem the flood of appeals by issuing a counter-flood of provisional memoranda to clarify existing law. Worse and worse, the authorities in the various German Länder issue conflicting "clarifications".

The end result is an appalling cat's cradle for the accountants to sort out. One almost feels sorry for them.

Earthly support

■ Leaving aside an over-powering belief in Britain's Conservative party, it would seem that on certain key issues the Daily Mail's 66-year-old publisher Viscount Rothermere is less in tune with his own paper than with its gutter-press rival, The Sun.

He and it both support the Archbishop of Canterbury's attack on greedy executive pay rises – which is more than can be said for the Daily Mail itself.

"It is not surprising that the churches are so empty when the leadership of its priesthood is intellectually so mediocre and so out of touch with the mood of our times," opined the Mail on Monday.

Yesterday, it was forced to publish a prominent letter from its proprietor – who supplements his £359,000 salary with the earnings on his £200m-plus family fortune – distancing himself from the Mail's criticism of the archbishop.

Meanwhile, the archbishop may be heartened by being told by a Sun editorial that "if we cannot have Savonarola or Billy Graham, you are the next best thing". Pretty profound stuff.

Sour note

■ While we're talking about interfering newspaper barons, Lord Stevens's annual bash for the great and the good at the Savoy Hotel yesterday wasn't quite up to scratch. There was nothing wrong with the guest list. Everyone from the Daily Telegraph's Conrad Black and the BBC's Michael Checkland to Chris Patten and Kenneth Clarke turned out to listen to the United Newspapers' proprietor.

But why was Stevens handing out free copies of the Pick of Punch? Not only has he himself just closed the 150-year-old satirical magazine, but the book is published by one of his arch rivals, Rupert Murdoch's HarperCollins.

Shome mishtake

■ What do you call a wine bar that doesn't accept Luncheon Vouchers?

LV? No!

FINANCIAL TIMES
Wednesday May 13 1992

Nurses march through Tokyo earlier this week to demand better working conditions. The banner reads 'We need a vacation'

Japan adopts new work ethic

By Robert Thomson in Tokyo

JAPANESE executives are lamenting the disappearance of a breed of model worker delighted to do unpaid overtime, inspired by a passionate loyalty to the company and even *"genetically inclined" towards hard work.*

As part of an intensifying debate about whether the Japanese work ethic is being eroded by "western-style" individualism and materialism, the Keidanren, the country's federation of economic organisations, surveyed 2,125 chief executives and senior managers, who agreed that the work ethic was changing but disagreed on the impact.

The debate was inspired by Mr Akio Morita, the Sony chairman, who recently announced that managers should reduce working hours, raise workers' salaries, increase dividends and generally become more philanthropic.

He also suggested that companies abandon their quest for market share and concentrate on profit quality.

Mr Morita's comments were taken by some outraged executives as a direct attack on the terms and conditions of a social contract that *had ensured Japan's success. There was also* concern that employee enthusiasm may be undermined by a chairman's confession that they were under-compensated.

The federation's survey showed that Japanese companies are indeed dependent on the *enthusiasm of their staff, as 88 per cent of* the companies rely on "service overtime", that is, unpaid overtime.

About 53 per cent of managers surveyed said unpaid overtime should decline but only 19.4 per cent supported an end to the practice, which makes the working year far longer than the official estimate of 2,052 hours. Japan's company-backed unions say the actual figure is closer to 2,400 hours.

Asked to describe their employees' source of motivation, 30.9 per cent of managers said promotion prospects were most important and 26.9 per cent thought it was salary, but 37 per cent suggested that the love of work itself was the prime factor.

A Nippon Steel executive said "Japanese corporate energy" came from Japanese-style work values, self-realised desire and a now-declining, but essential love of teamwork. An executive at J.R. Tokai, the railway operator, *said "individualism" was replacing company* loyalty as the most important motivation.

Increasing wealth was seen as a threat to the old order, with 41 per cent of executives believing that work values were being eroded by material comfort, although 23 per *cent disagreed, and 36 per cent were unsure.*

These questions prompted the not uncommon answer that the Japanese work-style was fundamentally different because of the rice cultivator tradition – westerners are said to be imbued with the spirit of hunter-gatherers and thus have become more individualistic and aggressive.

Mr Tsuneo Aki, vice-chairman of Obayashi, the construction company, said that as cultivators, Japanese people had to toil more diligently. The result, he suggested, was that Japanese became "genetically inclined" to working hard, with genes quite distinct from those of westerners.

Other executives said Japanese workers were less efficient than their US and European counterparts, while unnecessary "service overtime" was clocked-up by employees unwilling to leave the office before their managers even if they had nothing to do.

THE LEX COLUMN

Inflation in the works

It is tempting to see the sharp drop in April producer price inflation as justi*fication for last week's base rate cut.* But that is altogether too neat. The fall in the headline rate – to 3.8 per cent from 4.5 in March – largely reflected slackening pressures on food, drink and tobacco prices, probably because manufacturers are reluctant to pass on Budget increases. The underlying rate of 2.8 per cent, although low, has barely moved over the past three months.

Three factors should continue to restrain wholesale price inflation in the short run: weak raw material prices, a relatively strong currency and downward pressure on wages resulting from both fear of unemployment and tight corporate cash flow. Less clear is how far the recent record can be sustained in the upturn. Unless it can, the UK has little chance of undercutting German interest rates for any length of time. But manufacturers may well be anxious to use any recovery of demand to repair margins, especially in sectors such as metals and fibres, where prices have actually fallen over the past year.

Nor is there a direct correlation between producer prices and retail inflation. Admittedly, the worst forecasts may prove exaggerated when April's RPI is announced on Friday. Food, drink and tobacco prices may also be sluggish at the retail level, but the rate will jump from March's 4 per cent as lower mortgage interest rates *fall away. And while manufacturers'* prices are soft, the service sector has been much slower to respond to treatment.

FT-SE Index: 2722.4 (-15.4)

Marks and Spencer

If the defensive qualities of Marks and Spencer were ever in question, its full-year figures provide the final rebuttal. The 1 per cent rise in pre-tax profits and earnings per share means *it has got through yet another reces*sion – a particularly savage one for the retail trade – with its growth record since the Korean War intact. Although Marks sees no upturn in demand, its UK profits growth and *margins were better in last year's sec*ond half than in the first. In the current year, it says, the cost-cutting measures already undertaken mean it can increase profits further on unchanged volume.

The one caveat is pricing. Marks is notably silent on the question of volume versus prices last year, although the fact that its UK sales were down one per cent on some 5 per cent extra space is telling enough. The issue is particularly sensitive for Marks, whose reputation owes much to the notion of fair value. In clothing, as elsewhere in the retail trade, discounting is now so prevalent that shoppers may have some difficulty in deciding what constitutes a fair offer.

But it does not do to quibble. At yesterday's 331p, Marks's shares are on a historic multiple of 22 times, compared with a market average of 17. If the prospect were one of a sharp bounce in retail spending, that would look expensive by comparison with Marks's more bombed-out peers. But *in the past couple of weeks, the mar*ket's faith in a post-election retail boom has weakened perceptibly. In uncertain times, there is much to be said for quality.

BP

BP's disposal of its remaining interests in Canada through a Canadian securities house highlights how difficult it is to sell assets these days. The *proceeds will be paid in instalments* over two years. But at least the deal closes a frustrating chapter for BP. It also raises the larger question of what the group might look like when its disposal programme is complete.

In broad terms, the balance of the business may not look that different, with upstream oil accounting for roughly two thirds of capital employed and the remaining third devoted to downstream oil and other odds and ends. Exploration will concentrate on the biggest, most profitable fields at the expense of riskier regions, where assets will eventually be sold.

The big question concerns the future of the unprofitable chemicals division, which, at £3bn of annual turnover, is around the same size as the bulk chemicals business of ICI. It is once more under the cost-cutter's knife. If BP decides that its required rate of real growth is not achievable, it may seek outside help by way of an off-balance sheet alliance or joint venture. The attraction of that route is twofold. BP would share the formidable burden of petrochemical investment. It would also flatter its creaking balance sheet by shifting debt off the books. By going for scale, it might also turn the screw on a few other oil companies which share the decades-old delusion that chemicals provide a hedge against the oil industry cycle.

BAA

The stock market is bound to worry that BAA's profits in the late 1990s will get stuck in the sludge works occupying the future site of Heathrow's *Terminal 5. Investors, to be sure,* have good reason to be cautious about the airline industry's long-term prospects, given the unanimous belief of the experts that everything looks rosy. But worries that BAA will be unable to fund the terminal from new borrowings and retained earnings are probably misplaced.

After adjusting for interest and inflation the ultimate cost of the project could be £2bn, of which perhaps a *little over half will be needed to com*plete Phase One in 2002. That implies additional capital spending of £100m a year, hardly excessive for a group which should be making profits of £250m-£300m this year. Admittedly, *BAA is heavily cash negative at pres*ent due to existing capital commitments and low profits. But by 1996-97, when the work is expected to start, this should have reversed. The next pricing review is conveniently timed *for around then, which could give the* company an opportunity to repeat the sort of threats which helped it secure such a lenient regime last time.

That said, it is hard to see BAA providing much excitement following the re-rating of the last six months. Relief at the outcome of the review, the disappearance of the Labour threat and the stay of execution for intra-EC duty-free have combined to leave the shares on a prospective yield of under 3 *per cent* and a *forward* multiple whose premium to the market is again higher than the post-privatisation average.

Unions widen scope of protest and threaten action against the media

Gonzalez steps into strike row

By Peter Bruce in Madrid

THE POLITICAL atmosphere in Spain has sharply deteriorated ahead of a half-day general strike planned for May 28. Prime minister Felipe Gonzalez is promising to "guarantee" the right of people to work during the strike and the unions are threatening action against the news media.

The unions called the strike – and a further full-day stoppage in October – to protest at a decree that cuts unemployment benefits. They have also widened their protest to include an attack on government plans to introduce strike legislation and cuts in public sector industries.

Mr Gonzalez, who intervened in the growing dispute for the first time yesterday, urged the unions to call off the strike.

"Whoever wants to work on the 28th will be able to do so," he said. The unions are likely to mount pickets outside factories and offices to stop people breaking the strike.

Mr Gonzalez also said the government would ensure minimum levels of public sector services would be maintained. The government's strike legislation, about to be put to parliament, is designed legally to enforce such services in the public and private sectors, and attempts to impose them on May 28 are likely to be stiffly resisted.

The prime minister said the benefit cuts had been made as part of Spain's plans to converge its economy to higher EC standards and to enable the country to enter economic and monetary union as a founder member in 1997 or, at the latest, by 1999.

Mr Gonzalez denied he had any differences of opinion with Mr Carlos Solchaga, finance minister, who drew up the convergence plan containing the benefits decree. He insisted that Spain had no alternative but to enter Emu with its more powerful EC partners.

"What interests me is the well-being and security of this country," he said, "and I am convinced that the efforts outlined in the convergence plan are the way to achieve it."

Some observers in Madrid believe that by widening their demands beyond the repeal of the benefits decree, the unions may be tacitly acknowledging that public support for strike action against the decree only may be hard to sustain.

It seems likely, though, that the strike call will be adhered to on May 28, effectively shutting down the country. Experience suggests this will not necessarily imply support. During the last general strike on December 14 1988, many people simply took the day off as a holiday.

Newspapers have reacted angrily to demands that they publish a message from the unions on their front pages on the day of the strike. The unions have also told radio stations only to play music during the strike, to be broken by news broadcasts. Television channels have been told to display their test cards. The unions have said that, if the media do not agree to these demands by tomorrow, they will take action against them.

In an angry editorial, El Pais, the country's leading newspaper, described the demands as blackmail.

The Spanish Senate is due to complete a debate today on the convergence plan drawn up by Mr Solchaga. The government has said it would admit small changes being asked for by two large regional parties but the plan is likely to become law without significant changes. It will then be submitted to a meeting of EC finance ministers before the Lisbon summit at the end of next month.

Queen makes her Strasbourg debut

Continued from Page 1

The Queen drew up in the Renault model favoured by Mr Jacques Delors, president of the European Commission, who appeared in the chamber without the emperor's crown Euro-sceptics assume him to covet, and was first to his feet upon her entry.

Mr Valery Giscard d'Estaing, the regal former French president, made his entry after she had begun speaking – a tactic much favoured by his successor Mr François Mitterrand at European summits.

She got a warm welcome from MEPs who spent part of yesterday squabbling about seating arrangements. This row was triggered by the Euro-Conservative adjunct of Her Majesty's government, which now that it has swelled the ranks of the Christian Democrat bloc in Strasbourg has had to reseat (physically) to the right of Mr Jean-Marie Le Pen's neo-fascist group.

The Queen's theme was the reconciliation of post-war Europe, strength in diversity, and "the necessary balance struck at Maastricht" enabling action "on a European basis where the nature of a problem requires a European response". Enlargement of the EC and the nurture of eastern Europe were emphasised – as much as anything by the 22 flags of the Council of Europe flying where normally the 12 members of the EC club hang their pennants. But unlike Queen Beatrix of the Netherlands at Maastricht, Queen Elizabeth did not offer to "sacrifice her head" (on the coinage of the realm) for European Monetary Union.

It turned out to be "differences of opinion and style" which were "insignificant against the background of the proven commitment of Europeans today to reconciliation and democracy", and the Buckingham Palace sources insisted that no, there had been no change in the wording.

Her Majesty permitted herself a joke on the vigorous debating style British members "will no doubt have brought to the deliberations of this house ... a style which can be confrontational, as some of my ancestors found".

Republican sentiment was wholly absent yesterday, however, and the Queen got two ovations. At the lunch, the toast was "Europe", washed down by Moët et Chandon 1986. Mr João de Deus Pinheiro, the current Portuguese president of the Council of Ministers, said he felt "the European spirit was always there [in the UK], but now it's slightly more visible."

Mr Carlo Ripa di Meana, the EC environment commissioner who prompted the UK government's pre-Maastricht outburst about Commission meddling in national "nooks and crannies", said he was "moved and overcome by the presence of Her Majesty the Queen". One measure of her triumph was his decision to eschew his habitual bright green-rimmed spectacles, and wear royal blue ones for the occasion.

World Weather

		°C	°F
Ajaccio	S	21	70
Algiers	S	23	73
Amsterdam	C	13	55
Athens	S	18	64
Bahrain	S	30	86
Bangkok	C	35	95
Barcelona	S	20	68
Beijing	R	15	59
Beirut	S	21	70
Belfast	F	15	59
Belgrade	F	20	68
Berlin	F	15	59
Biarritz	S	22	72
Bombay	S	31	88
Bordeaux	S	22	72
Boulogne	C	15	59
Brussels	F	14	57
Budapest	F	17	63
Buenos Aires	R	19	66
Cairo	S	29	84
Cape Town	S	28	82
Caracas	[illegible]	28	82
Casablanca †	S	21	70
Chicago †	S	19	66
Cologne	C	15	59
Copenhagen	F	10	50
Corfu	S	15	59
Dallas †	S	22	72
Dublin	C	16	61
Dubrovnik		–	–
Edinburgh	S	13	55
Faro	[illegible]	25	77
Florence	S	25	77
Frankfurt	F	16	61
Geneva	[illegible]	16	61
Gibraltar	S	21	70
Glasgow	F	12	54
Helsinki	F	9	48
Hong Kong	S	27	81
Innsbruck	S	18	64
Inverness	F	11	52
Islamabad	F	36	97
Istanbul	S	16	61
Jakarta	R	32	90
Johannesburg	S	21	70
Lisbon	S	24	75
London	C	16	59
Los Angeles †	F	16	61
Luxembourg	F	15	59
Madeira	[illegible]	18	64
Madrid	S	26	79
Majorca	S	24	75
Malaga	S	22	72
Malta	S	24	75
Manila	C	34	93
Melbourne	S	18	64
Mexico City	C	22	72
Miami †	S	[illegible]	72
Milan	S	23	73
Montreal †	[illegible]	16	61
Moscow	C	12	54
Munich	S	16	61
Nairobi	F	23	73
Naples	S	23	73
Nassau	F	28	82
New Delhi		–	–
New York †	S	12	54
Nice	[illegible]	21	70
Nicosia	S	22	72
Oporto	S	20	68
Oslo	R	7	45
Paris	F	16	61
Prague	F	14	57
Reykjavik	S	6	43
Rhodes	S	19	66
Rio de Janeiro	F	34	93
Rome	S	22	72
Salzburg	S	17	63
S'Francisco †	S	12	54
Seoul	F	23	73
Singapore	F	32	90
Stockholm	F	14	57
Strasbourg	[illegible]	19	66
Sydney	R	19	66
Taipei	F	28	82
Tangier	S	26	79
Tel Aviv	S	25	77
Tenerife	F	22	72
Tokyo	S	19	66
Toronto †	S	13	55
Tunis	S	26	79
Valencia	S	23	73
Venice	S	[illegible]	73
Vienna	C	15	[illegible]
Warsaw	F	13	55
Washington †	S	13	55
Zurich	F	18	64

Temperatures at midday yesterday
† Noon GMT temperatures
C–Cloudy Dr–Drizzle
F–Fair Fg–Fog H–Hail
R–Rain S–Sunny
Sl–Sleet Sn–Snow
T–Thunder

FINANCIAL TIMES
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INSIDE

Bank of Scotland bids for NZ bank

The Bank of Scotland yesterday announced a surprise takeover bid for the New Zealand Countrywide Bank at a cost of NZ$53m ($27.96m). Under a previous agreement the Scottish bank was to own 60 per cent of the larger Countrywide Bank, following the latter's purchase for NZ$182.5m of the United Bank from the financially troubled State Bank of South Australia. Page 27

Time Warner reduces placement

Time Warner, the debt-laden US media and entertainment group, is cutting the size of a private placement of long-term notes from $1bn to $850m. Page 22

Small gains from bank mergers

Recent mergers involving big European banks have produced only small gains for shareholders from post-merger cost cuts. This is one finding of a study which has implications for Lloyds and Hongkong Bank, both of which hope to make big immediate cost savings it either buys Midland Bank. Page 25

GA cuts first-quarter losses

General Accident, the third biggest of the UK's composite general and life insurance companies, posted a reduced pre-tax loss for the first quarter. Losses were £29.2m ($52.5m), compared with £45.5m in the same period of 1991. Underwriting losses were down 20 per cent to £129.6m with losses in the UK down by nearly a third to £85.2m. Page 26

Coffee prices fall off the chart

A chart spread the length of the lobby wall of the Association of Indonesian Coffee Exporters logs the demise of the world price for Indonesia's robusta coffee from 1985. With London robusta contracts suffering 22-year lows, space on the wall has run out; the price has literally dropped off the chart. Page 28

Digging into Siberian gold

A small Australian company is close to completing the first deal giving foreigners a direct stake in Russia's gold mining industry. Star Technology Systems is negotiating to buy a 31 per cent stake in a Siberian gold producer. This would include the development of Russia's largest proven hard rock gold deposit. Page 28

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Chief price changes yesterday

FRANKFURT (DM)

Rises			
Karstadt	627.5	+	8.6
Rheinmetall Ber	305	+	9
Falls			
Holzmann Ph	1135	−	16
Linde	836	−	12
Porsche	505	−	13
Schmalbach Lub	549.5	−	8

NEW YORK ($)

Rises			
Midlantic	10⅞	+	¾
News Corp	33	+	1
Star Banc	37	+	¾
Falls			
Citicorp	16⅞	−	⅝
Limited Inc	21¾	−	2⅝
Sharm	27	−	11

PARIS (FFr)

Rises			
Imm de France	815	+	35
Falls			
Alcatel Alsth	661	−	16
Chargeurs	1168	−	42
Damart	3065	−	114
Eurocom	686	−	19
Soc Gen de Fr	554	−	19

TOKYO (Yen)

Rises			
Carolina	370	+	40
Hoiwa	3660	+	500
Nissan Fire	1510	+	170
Sanfo	1540	+	200
Tamura Electric	1210	+	180
[illegible] Express	870	+	92

LONDON (Pence)

Rises			
[illegible]	13¾	+	2¼
[illegible] Elec	180	+	12
Eurocopy	48½	+	4½
Jessups	84	+	8
Manoldo	91	+	7
McLeod Russel	99	+	7
News Corp	815	+	22
Ranks	94	+	9
Richardson West	87	+	5
Sherwood Comp	283	+	14
Wace	173	+	15
Yorklyde	240	+	13
Falls			
Amber Day	73	−	5
Bass	637	−	16
Cairn Energy	47	−	5
Coats Viyella	271	−	16
Euro Disney	1268	−	52
Fenner	86	−	11
Menzies (J)	410	−	12
NatWest Bank	363	−	12
Tomorrows Leis	66	−	4
WPP	64	−	6
Windsor	18	−	3

News Corp ahead by 76% to A$334m

Fall in interest payments due to refinancing leads to improvement, writes **Kevin Brown** in Sydney

NEWS Corporation, Mr Rupert Murdoch's media group, yesterday underlined its recovery from financial problems with a 76 per cent increase in net profits to A$334m (US$253m) for the nine months to the end of March.

News Corp said the improvement in profits was largely due to better results from its newspaper and television operations, offset by disappointing results at Twentieth Century Fox.

However, the biggest contributor to profits was an A$170m reduction in interest expenses to A$728m, reflecting lower interest rates and falling debt following the group's US$7.6bn debt refinancing, completed in early 1991.

NEWS CORP – 1991-92 revenue by geographic area (A$m)

Country	1Q	Year earlier	3Q	Year Earlier
US	1,620.0	1,600.0	4,850.0	4,910.0
UK	500.9	534.8	1,470.0	1,750.0
Aus/Pacific	336.8	453.9	1,410.0	1,050.0

The reduction in interest expense was offset by an increase from A$11m to A$77m in the group's share of losses at BSkyB and Ansett Transport Industries, the Australian aviation business jointly owned with TNT. News Corp also confirmed that BSkyB, the British satellite television operation in which the group has a 50 per cent interest, moved into profit in March. It said BSkyB was now transmitting to 3.1m homes, against 2.1m a year ago.

Revenue was down from A$8.3bn to A$7.7bn, mostly due to disposal of assets and the flotation of a 55 per cent interest in Pacific Magazines and Printing, the group's Australian commercial printing business.

Net profits were A$437m, after taking account of abnormal profits of A$103m, mostly reflecting the flotation of the Australian printing businesses. News Corp reported abnormal losses of A$189m in the comparable period of last year, reflecting the financing costs of its debt rescheduling.

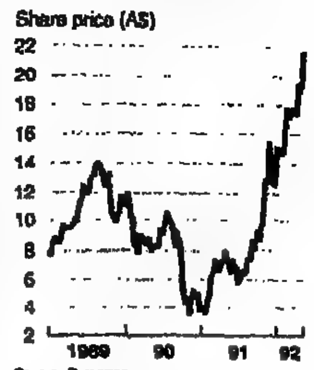
The result represents a significant recovery since the end of the year to June, when News Corp made a net loss of A$393m after abnormal losses of A$714m. The group forecast "significant" gains in profits in the current year.

At the trading level, US profits fell by 17 per cent to A$655m, on turnover down 1.3 per cent to A$4.8bn. News Corp said the lower figures reflected the sale of nine consumer magazines in June, together with foreign exchange gains in the earlier period.

UK profits increased by 158 per cent to A$275m, reflecting the transfer of satellite broadcasting losses to BSkyB and a 49 per cent improvement in profits from the newspaper division.

Profits from Australia and the Pacific basin increased 4 per cent to A$259m, helped by a 12 per cent improvement in profits at the South China Morning Post in Hong Kong. The group said costs were lower following mergers between the group's morning and evening newspapers in Sydney and Melbourne.

News Corporation



Source: Datastream

BP sells Canadian stake for C$374m

By Neil Buckley in London

BRITISH Petroleum, in the wake of disappointing results last week, is selling its 57 per cent stake in its Canadian subsidiary BP Canada for C$374m (US$314m).

The move marks BP's withdrawal from oil and gas business in North America, apart from ventures in Alaska and the Gulf of Mexico. BP has been in Canadian oil exploration since 1953.

Mr John Browne, chief executive of BP Exploration, said the sale was a further step in the process of rationalising and focusing the company's exploration and production activities.

"We have to make choices, on a worldwide basis, about the allocation of the resources we have available," he said.

The sale follows disposals of BP's Houston-based subsidiary Tex/Con last year, and of its stake in the Canadian Hunter joint venture in British Columbia this year. It will be lead-managed by RBC Dominion Securities. Shares will be priced at C$13, paid in three instalments over the next two years. Analysts said it could eventually represent a book profit of around £100m (US$177m).

BP Canada has been reorganised in the past three years into a focused oil and gas business with significant interests in the deep gas fields of the Western Canadian Basin. Its gross reserves are 40m barrels of oil and 743bn cu ft of gas.

Total market capitalisation at the current market price is C$688m. A wholly-owned subsidiary of BP, BP Canadian Holdings owns 56.94 per cent of issued shares.

BP disappointed the London stock market last week with an 80 per cent drop in first-quarter profits on a replacement cost basis – insufficient to cover its dividend. When stockholding losses are taken into account, the company made its first-ever quarterly loss, of £61m, compared with a £10m profit in the same period last year.

Analysts said the BP Canada sale was consistent with BP's policy of divesting its North American interests and concentrating on more significant projects in fewer countries.

The sale will also help to ease BP's heavy cash flow burden.

BP shares gained 5p to 257p in London yesterday, although analysts said this was largely on the back of a rise in New York.

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Olivetti blames loss on restructuring

By Haig Simonian in Milan

OLIVETTI, the troubled Italian computers and office equipment group, yesterday announced a bigger than expected consolidated loss of L459.8bn ($372m) for 1991, compared with a L60.4bn profit for 1990, and passed its dividend for the year.

Most of the loss came from restructuring costs as the company tackled what it described as the "most difficult year ever experienced by the information technology industry worldwide".

Like its competitors, Olivetti is restructuring to tackle declining growth in demand for many computer products and fierce price competition from rivals.

Adjusting to the tougher competitive conditions overshadowed its 1991 accounts. Almost L290bn of last year's loss stemmed from redundancy payments and associated interest and extraordinary charges.

A further L170bn was set aside to cover "extensive process and industrial restructurings", linked to the company's decision to scrap its former complex divisional structure and adopt a simplified model. Although only put into operation in January, the full provision for restructuring was carried on the 1991 accounts.

Cost savings from labour were partly held back by delays in government approval for last year's job cuts, meaning that most of the redundancies only took effect at year-end. The workforce shrunk by 7,200 in 1991, more than double the rate of the previous year, and helped cut operating costs by 2.8 per cent.

At operating level, Olivetti reported a loss of L25.3bn, while sales fell 4.8 per cent to L8,607bn. The operating figure was slightly worse than the company's earlier predictions of breaking even.

Olivetti made no forecast for either sales or profits this year. However, Mr Carlo De Benedetti, chairman, has said previously that it hoped to break even in 1992. Instead, the group stressed its financial solidity, and the signing of important new ventures so far this year. Net indebtedness fell L172.6bn to L571.9bn last year, while net operating working capital dropped 18.7 per cent to L2,549bn at the end of last year.

On the sales side, first quarter revenues fell 1.1 per cent against the same period last year, or by 3 per cent when adjusted for disposals.

Earlier this year, Olivetti reached agreement with Canon on a joint venture to produce computer printers and it has just announced an accord to supply personal computers to McDonald's food chain in the US.

American recipe for European consumers

Philip Rawstorne reports on the merger of PepsiCo's and General Mills's snack food businesses in Europe

The merger of PepsiCo's and General Mills's snack foods businesses in continental Europe represents another investment in the belief that what the US consumer did yesterday, the European consumer will do tomorrow.

In 1980, snacks accounted for about 18 per cent of the average American diet. Today, it is more than 25 per cent. The trend has made PepsiCo's snack foods more profitable than its better-known drinks brands.

Operating profits rose from $339m in 1986 to $934m in 1990 before restructuring costs reduced them to $788m last year.

Annual retail sales of two snack brands, Ruffles potato chips and Doritos tortilla chips, have retail sales of more than $1bn each. The successful growth of the business in the US convinced PepsiCo that the process could be repeated worldwide.

Factors which drove the demand for snacks in the US have been evident for some time in Europe. As the number of working women has increased, families have been eating fewer meals together.

The demand for convenience foods has been stimulated. Europeans have discovered a taste for the chips and crackers, candy and cookies, on which US consumers graze throughout the day.

The experience of Pepsico's Frito-Lay, the leading US snacks manufacturer, suggested barriers to growth in Europe would be less inhibiting than some observers thought. PepsiCo's introduction of western-style snacks in countries such as Mexico and Korea encouraged its view that European eating habits would be as susceptible to change.

Concerns about health and diet in the US as early as the mid-1970s led to the company providing low-fat, low-salt snacks to make consumers feel better as they indulged.

"The development of the industry has been remarkably consistent in spite of widely varied cultures and tastes," says Michael Jordan, chairman of PepsiCo international foods and beverages.

"Once the snacking habit is established, consumers demand more variety. Product innovation then generates further growth."

PepsiCo introduced more than 40 new snacks into the US market during 1989 and 1990 – and the potential of the European venture's combined research and development resources to improve on that record is clearly seen as a benefit of the merger.

PepsiCo's international snacks operations now involve 27 businesses in 25 countries. It is the group's fastest-growing division. Sales have risen from $419m to $1.8bn, and profits from $27.6m to $171m since 1987.

Europe, including the UK where PepsiCo secured a 39 per cent market share with the $1.35bn acquisition of Smiths and Walkers crisps from BSN, the French foods and drinks group, in 1989, accounts for 30 per cent of sales.

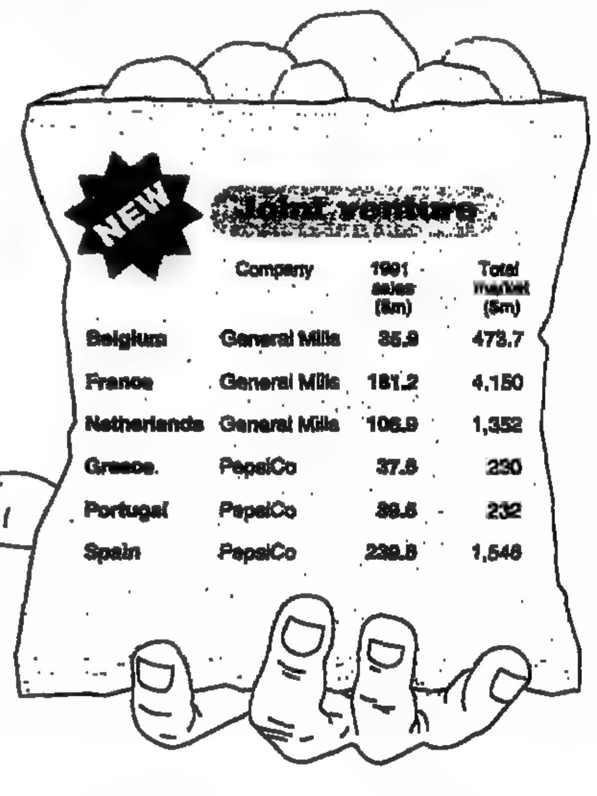
Annual consumption of snack chips in the UK, the most highly developed market, is still only 9lbs a head compared with 14lbs in the US. In Spain, consumption per head is 3lbs, and in Turkey a mere two ounces.

Combined sales of the new venture amount to little more than 3 per cent of the existing market – but the partners have now put themselves into a much better position to increase that share.

General Mills brings to the venture secure shares in northern Europe. Its three companies there – Biscuiterie Nantaise which has 4.4 per cent of the $4bn French market, and the Smiths Food Group operations which hold around 8 per cent of the Belgian and Dutch markets – have annual sales of around $325m.

PepsiCo complements that with leadership in Spain, Portugal and Greece, the fast-growing markets of southern Europe.

Europe may as well reconcile itself to the crunch of Cheetos and Doritos, Bloopers and Chupa Chups.



Joint venture

	Company	1991 sales ($m)	Total market ($m)
Belgium	General Mills	35.9	473.7
France	General Mills	181.2	4,150
Netherlands	General Mills	106.9	1,352
Greece	PepsiCo	37.6	230
Portugal	PepsiCo	39.6	232
Spain	PepsiCo	239.8	1,546

Procordia pessimistic despite 14% advance to SKr1.12bn

By Robert Taylor in Stockholm

PROCORDIA, the Swedish pharmaceutical and food group jointly controlled by Volvo and the Swedish government, yesterday announced a 14 per cent improvement in profits after financial items for the first three months of the year to SKr1.12bn ($190m).

However, Mr Soren Gyll, Procordia's president and chief executive officer for the past eight years, warned that he did not expect the past 12 months' strong growth to continue.

Mr Gyll, who is moving to Volvo as its chief executive, said Procordia would continue its SKr1.4bn rationalisation programme to regain the profit level of SKr13.20 per share of two years ago, before it merged with the Pharmacia drug group and Provendor, the food company. Last year Procordia doubled its profits to SKr4.2bn and SKr11.60 a share.

Mr Gyll has not disguised his disappointment during the past few days at the failure of the proposed Procordia-Volvo merger in the face of opposition from the Swedish state.

The compromise entails the government selling its shareholding in Procordia at the price and time it chooses with an increase in Volvo's voting rights in the company to 45 per cent.

Today Mr Jan Ekberg, head of Kabi Pharmacia, the group's pharmaceuticals business, becomes Procordia's president and chief executive officer. He replaces Mr Gyll who becomes Volvo's chief executive and chairman of the Procordia board.

Procordia's strong performance in the first quarter stems from a particularly impressive result from Kabi Pharmacia, where sales rose 22 per cent to SKr3.40bn, and operating income increased 19 per cent to SKr742m.

Opthalmics increased sales in most markets. By contrast, almost all the other business recorded falls in operating income and sales with a 62 per cent drop in operating profits for its beverages division to SKr13m, and a 48 per cent fall in operating profits in Pharmacia Biotech, which is blamed on "a poor investment climate for large instruments".

But the company's food business made a 12-per cent improvement in operating profits to SKr46m and there was an 8 per cent growth in operating profits to SKr208m for Procordia's tobacco and confectionery sectors.

M&S advances 1.3% to £623.5m

By John Thornhill in London

MARKS and Spencer, the UK-based retailer, reported a 1.3 per cent increase in pre-tax profits last year as it successfully defended its operating margins in severe trading conditions, but damped down immediate expectations of a consumer-led recovery.

The international clothing and food group warned that it was still experiencing "no upturn in UK consumer spending" and revealed its intention to prune its loss-making Canadian operations by closing a further 25 stores by the end of January.

In the year to March 31, pre-tax profits rose from £615.5m ($1.045bn) to £623.5m on sales 2 per cent higher at £6.36bn compared with £6.26bn last year.

Store sales in the UK fell by 0.6 per cent to £4.92bn as the company lost market share as a result of aggressive discounting by competitors.

Sir Richard Greenbury, chairman and chief executive, said M and S had refused to buy additional sales by cutting prices and was in a strong position to attack when confidence recovered and retailers saw the "whites of the consumers' eyes".

"The biggest difference between us and our competitors is that we have sold goods at full price and full margin. Their attempts to build their sales have been at the expense of their profitability," he said.

M and S's pre-tax figures were pegged back by exceptional costs of £46.9m, compared with £16m last time, relating to M and S's voluntary redundancy programme in the UK and rationalisation of its Canadian operations.

Stripped of these, pre-tax profits advanced by 6.2 per cent to £670.4m as M and S reined in costs, made substantial productivity gains and lifted operating margins from 11 per cent to 11.7 per cent.

Mainland Europe showed good growth and the upmarket Brooks Brothers chain in the US and Japan improved its profitability. But Kings Super Markets in the US and the group's three Canadian businesses again disappointed.

After swallowing an extraordinary charge of £29.8m relating to the goodwill write-off and loss on the anticipated disposal of its Canadian Peoples Division, M and S reported only a slight increase in earnings per share to 14.8p from 14.7p. A proposed final dividend of 5p will lift the annual pay-out by 6.4 per cent to 7.1p from 6.7p. The company's shares rose 1p to 331p.

Mr Mark Husson, retailing analyst at Warburg Securities, said: "This result must qualify as a rabbit out of a hat. M and S could not buck the trend in terms of absolute demand but it could improve its performance because of its accelerated productivity growth."

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Péchiney cuts stake in packaging subsidiary

By Richard Waters

PECHINEY, the French state-owned aluminium producer, cut its stake in its packaging subsidiary, Péchiney International, to 67.9 per cent yesterday, with the sale of FFr1.29bn ($230m) of its shares in a private placement.

Its holding fell from 74.1 per cent and is likely to fall further to 66.7 per cent at the end of June when publicly held warrants on its shares fall due to be exercised.

The private placement was conducted in France and internationally by Banque Nationale de Paris, Credit Suisse First Boston and Lazard Freres. The three banks bought 14.3m warrants in the subsidiary from Péchiney and immediately exercised them, resulting in the issue of 7,146,068 new shares.

Yesterday's sale raised FFr1.29bn for Péchiney International. The total will rise to FFr1.7bn should further publicly held warrants be exercised at the end of June.

In addition, the company expects to raise FFr3.85bn shortly from the sale of its aluminium and international trading businesses to its parent.

The money raised would "strengthen Péchiney International's financial position and enhance its ability to develop its principal line of business, packaging", the company said.

Péchiney added that the private placement – which came after the market had closed – was expected to be completed shortly. No particular block of shares was earmarked for sale internationally, with all three banks selling shares both in France and abroad.

Esselte to divide in two in restructuring move

By Robert Taylor in Stockholm

THE board of Esselte, the Swedish office products group, confirmed yesterday that it proposes to divide the company into two independent groups as part of its restructuring programme.

Esselte AB will be the company's international business arm concentrating on the production and marketing of office products while there is to be small Nordic business – Information Systems – dealing with the company's wholesale and retail operations related to office electronics and office products.

The aim of Esselte's division is to streamline the business and create a more clearly defined and efficient structure. Yesterday the group acknowledged its present organisation was chaotic and hinders overall development.

While Esselte's international manufacturing segment is "currently in a more expansive phase," its Nordic operations are "experiencing a phase of consolidation and restructuring". The group said yesterday this created problems for the focus of its activities and resource allocation.

The shareholders will be asked to approve of Esselte's division at their annual meeting on June 12 and the company said the share distribution would take place no later than November 30.

Under the proposal the Swedish company Getinge Intressenter, owned by Mr Rune Andersson, Esselte chairman, will become the largest shareholder in the new Nordic group with 34.8 per cent of its equity and 47.7 per cent of its voting rights after buying the shares in Esselte owned by the two large Swedish banks Nordbanken and Gota.

Esselte has gone through a prolonged period of upheaval caused by competitive cost pressures and falling demand for its products.

Two years ago it began to concentrate on a core business strategy.

NCM Holding posts profits of Fl 33.1m

By Ronald van de Krol in Amsterdam

NCM Holding, the Dutch private-sector credit insurer which acquired Britain's short-term export credit arm last year as part of a UK privatisation programme, said that after-tax profits in 1991 totalled Fl 33.1m ($17.9m), just under the record Fl 33.6m posted in 1990.

The 1991 figures are almost entirely composed of NCM's Netherlands operations because the company did not complete its purchase of the short-term insurance arm of the UK's Export Credits Guarantee Department until December 1.

In 1992, the first full year of operations in the UK, NCM said it expects insurance transactions worth £14bn ($24.78bn), while premium income is expected to total £80m. NCM described the UK acquisition as marking a new phase in its existence, leading to a doubling of its business and opening up opportunities for growth in Europe.

Mr Harry Groen, chairman, said the British market's initial response to a new package of products launched by NCM in April was encouraging. In the first month, NCM Credit Insurance, Ltd, the new name of the privatised UK insurance arm, had issued several hundred "quotes" to potential customers and had already closed some business transactions.

The 1992 figures will not include the technical results of NCM's British subsidiary because of the normal three-year lag before these enter the books. NCM Ltd will, however, contribute to NCM Holding's results through its investment income.

NCM's results on direct underwriting in 1991 (which covers the 1987 underwriting year) rose to Fl 42.9m from Fl 32.2m a year earlier, when the books on the 1986 underwriting year were closed. However, results for indirect underwriting swung into a loss of Fl 3.9m from a profit of Fl 10.3m.

Harpener expects sale by summer

By David Waller in Frankfurt

HARPENER, the German industrial group which made large losses because of its entanglement with Mr Werner Rey, the Swiss financier, is likely to have a new majority shareholder by the summer.

Mr Heinz Sippel, the company doctor who is Harpener's chairman, said yesterday that the group was in the final stages of negotiations with a number of potential buyers.

The majority of the group's shares are held by Swiss and French banks as collateral for the debts of Omni, Mr Rey's former business empire which went into liquidation last year.

Mr Sippel said that advisers to the sale Lazard, Bürklin, Kuna & Co, the Frankfurt arm of the Lazards investment bank, and Lazard Brothers of London, were likely to conclude a deal in time for Harpener shareholders' meeting on July 29.

As expected, Harpener, which has interests in property, energy and transport, yesterday reported a significant turnround in net profits before extraordinary charges. It made net profits of DM66.3m ($40.1m) last year compared with a loss of DM95m in 1990. Group indebtedness fell from DM316.7m in the previous year to DM91m at the end of 1991.

Extraordinary expenses totalled DM93.7m, marginally down on the previous year's DM95.6m charge. As in 1990, the bulk of the charge related to obligations taken over as a result of the Omni affair.

After taking control of Harpener, Mr Rey's Omni used it to buy stakes in a a number of loss-making companies. The largest, and most disastrous purchase was of a large minority stake in International Leisure Group, the collapsed UK leisure group. The total cost to Harpener had reached about DM350m, Mr Sippel said.

Ahold turnover surges to Fl 6.7bn

By Ronald van de Krol

AHOLD, the Dutch food retailer active in the US and the Netherlands, said turnover surged by more than 20 per cent in the first four months of 1992, boosted by last year's acquisition of a US supermarket chain as well as by autonomous growth in existing stores.

The company said operating and net profit in the first quarter of 1992 were also expected to be higher, confirming predictions of growth in full-year earnings, but gave no details.

Turnover in the 16-week period rose by 22.1 per cent to Fl 6.7bn ($3.6bn), helped by last year's acquisition of the New York-based supermarket chain Tops Markets.

If the chain, Ahold's fourth in the US, is excluded, group turnover was up 8.8 per cent in the period.

In the Netherlands, where Ahold generates just under half of total turnover, sales rose 8.3 per cent to Fl 3.3bn. US sales increased by 34 per cent to $1.9bn. Without Tops Markets, Ahold's US turnover would have risen by 5.1 per cent.

Besides the Netherlands and the US, Ahold is gradually building up a chain of supermarkets in Czechoslovakia under the name MANA. The company already has five MANA supermarkets in operation and hopes to add many more in 1992.

Mr Pierre Everaert, chairman, told the annual shareholders meeting in Amsterdam that the process of establishing a chain of stores under Czechoslovakia's privatisation programme was proving to be slow, but he said Ahold was making progress.

Bobst benefits from full order books

By Frances Williams

BOBST, the Swiss paper and packaging machinery concern, posted an increase in consolidated net earnings of 17.9 per cent to SFr71.1m ($46.70m) in 1991, while turnover increased by 9.3 per cent to SFr1.13bn. Cash flow rose 22 per cent to SFr140.3m.

Mr Bruno de Kalbermatten, company president, said Bobst had benefited last year from fat order books accumulated in 1990. He expected slower growth in 1992 but more positive developments in 1993.

The Lausanne-based group, which employs 5,400 people worldwide, has adopted EC accounting standards for its 1991 consolidated accounts. Besides increasing transparency, the move has boosted the group's balance sheet largely by increasing asset values. However, the parent company, Bobst SA, continues to use traditional Swiss accounting methods.

Bobst SA reported a 9.6 per cent increase in net earnings to SFr31.9m. The annual shareholders meeting on May 26 will be asked to approve an unchanged dividend of SFr34 per registered share and participation certificate and SFr68 per bearer share. The group boosted share capital by nearly 20 per cent last year to SFr755m.

Mr Pierre-André Jolliet, finance director, said the company was considering a simplification of its share structure but had yet to make a decision. Increasing numbers of Swiss companies are moving to a single class of share, abolishing the distinction between registered (voting) shares available only to Swiss nationals and bearer shares which have no voting rights.

The group would continue to strengthen its position in the mid-range of the market, as well as in high-quality products, a strategy that was paying off in developing country markets which account for a quarter of Bobst's sales, the company said.

Investor records improvement

By Robert Taylor

INVESTOR, Sweden's leading investment company, has announced a strong improvement in profits for the first three months of the year to SKr1.14bn ($192m) from SKr258m for the same period of 1991.

The main reason for the strong growth was the sale of Investor's shares at the beginning of the year in Skandia, Sweden's leading insurance company and the engineering group Asea. At the end of March, Investor's strategic portfolio on the Stockholm bourse was valued at SKr23.078bn.

● Metra, the Finnish industrial company, is seeking the authorisation of its shareholders on 8 June for a FM60m share issue over the next twelve months. When and whether the company goes ahead will be decided by the board.

SGS up 17% at four months

By Frances Williams in Geneva

SOCIETE Générale de Surveillance (SGS), the world leader in product inspection and testing services, increased turnover by 17 per cent in the first four months of 1992, Mrs Elisabeth Salina Amorini, chairman, said yesterday.

This figure was boosted by the weakness of the Swiss franc against the dollar and poor business last year due to the Gulf conflict. The chairman said she faced 1992 with confidence despite the difficult international environment.

In 1991 SGS boosted revenues by 9.7 per cent to SFr2.2bn ($1.44bn) with a "marginally favourable" contribution from currency movements. Mrs Salina said the Geneva-based group would continue its policy of balancing internal growth with acquisitions of small and medium-sized companies designed to strengthen its core activities.

● Ascom Holding, parent of the Swiss telecommunications group, says it plans to abolish any remaining participation certificates, which have now been largely converted into registered or bearer shares. Ascom, which had a consolidated turnover of SFr3.1bn last year, plans an unchanged dividend of 14 per cent.

German regional bank continues buoyant trend

By David Waller in Frankfurt

OPERATING profits at Westdeutsche Landesbank, the German regional public sector bank, climbed by "more than 50 per cent" in the first three months of the current year against the comparable period for last year, the bank's chief executive said yesterday.

Mr Friedel Neuber said that the good performance to date would put the bank on course for total operating profits of about DM1bn ($600m) for the year, up from DM970m for 1991.

He cautioned that first-quarter operating profits were inflated by the inclusion of a contribution from the house-building promotion facility of the state of Westphalia for the first time. Stripping this out, profits would have risen by 30 per cent in the first quarter.

The figures confirm that the German banking sector is still enjoying excellent lending conditions in the wake of a vintage year last year.

Last month, Commerzbank reported total operating profits up by 75 per cent in the first two months of the current year.

Spelling out some details of last year's results, WestLB said that group net profits rose from DM56m in 1990 to DM224.84m last year, while group operating earnings for last year more than doubled from DM340m to DM714m.

BBV in accord with Tractebel

SPAIN'S Banco Bilbao Vizcaya (BBV) said yesterday it had signed a general industrial co-operation agreement with the Belgian utility Tractebel, AP-DJ reports.

In a short statement, the Spanish bank described the agreement as "a general accord on global co-operation in the industrial sector."

Details on the accord will not be available until the two companies finish defining the agreement, a BBV spokesman said. The spokesman was unable to say how the accord would affect Proindesa, the industrial holding BBV formed in January with Spain's largest private utility, Iberdrola.

But in its statement, the bank said it had increased its stake in Iberdrola to almost 10 per cent from 5.9 per cent "by virtue of" the accord.

Tractebel has acquired around 3 per cent of Iberdrola since the start of the year under an agreement to strengthen the ties between the two utilities as a basis for joint ventures.

Subsequently, Iberdrola and Tractebel formed a consortium to bid in the privatisation of the Argentine utility Servicios Electricos del Gran Buenos Aires (Segba).

The Spanish and Belgian companies each hold 25 per cent stakes in the consortium, while the US utility UtiliCorp United has 16 per cent and the rest is in the hands of several Argentine concerns.

COMPANY NEWS IN BRIEF

BUEHRMANN-Tetterode, the Dutch paper distributor, office supply and packaging group, said profits fell in the first quarter despite a rise in sales, AP-DJ reports from Amsterdam.

The company, which saw its net profits plunge in 1991 to Fl 103.1m from the year-earlier level of Fl 260.8m ($144.4m), said sales rose 2 per cent in the quarter against the same 1991 period.

■ Portugal will privatise 49 per cent of the national airline, TAP-Air Portugal, in the second half of 1993, Reuter reports from Lisbon.

The government did not say what form the sell-off would take, but that control would stay in Portuguese hands.

■ Dutch brewer, Grolsche Bierbrouwerij, said its Grolsch Export BV subsidiary had reached a sales, distribution and marketing accord with Spanish brewer, La Cruz del Campo, 90 per cent owned by Guinness of the UK, Reuter reports from Amsterdam.

Time Warner forced to cut $1bn placement

By Alan Friedman in New York

A LACK of sufficient investor interest has forced Time Warner, the debt-laden US media and entertainment group, to slash the size of a recent private placement of long-term notes from $1bn to $850m.

The company, which plans to use the proceeds to replace bank loans as part of its restructuring of more than $7bn of group debt, had previously asked Merrill Lynch, lead agent on the transaction, to raise more than $1bn by way of a private placing.

A banker involved in the placing said that Mr Ed Aboodi, financial adviser to Mr Steve Ross, Time Warner chairman, had asked Merrill Lynch to raise the $1bn by placing $750m of 10-year senior notes and $250m of 20-year paper.

However institutional investors were not prepared to accept a full $1bn of Time Warner senior debt, according to an executive involved in the transaction. Time Warner then agreed to reduce the placing to $500m of 10-year notes paying 9⅛ per cent and $250m of 20-year paper at 10.15 per cent. The 10-year tranche was eventually raised to $600m.

Investors were apparently hesitant due to uncertainty over Time Warner's complicated debt restructuring, including a new $6.2bn bank loan and the transfer of much of the debt to Time Warner Entertainment (TWE), an 87.5 per cent Time Warner subsidiary that will have both Japan's Toshiba and C. Itoh as minority shareholders.

The company's ratings, meanwhile, remain below investment grade, although these are expected to be upgraded after the debt rescheduling is completed.

After the size of the Time Warner placing was reduced, Merrill Lynch offered the company an additional $250m as a bridge loan that would eventually be converted into a new 10-year bond with a coupon 200 basis points above the equivalent US Treasury maturity. The bond is expected to be issued in the second half of 1992.

This transaction was described by Time Warner as a forward underwriting commitment. By July it should allow the company to reduce its bank loan by the same amount.

Time Warner's next step will be to raise a further $1bn to $1.5bn cash by seeking to bring US and European partners into its TWE venture with Toshiba and C. Itoh. IBM, the computer company, is among the companies that may be asked to invest up to $500m in TWE.

JC Penney surges to $136m

By Nikki Tait in New York

J.C. PENNEY, the big Dallas-based retailer, yesterday reported a sharp upturn in profits during the first three months of the 1992 financial year. However, its performance contrasted with that of The Limited, a once high-flying specialist retailer, whose profits and earnings per share were flat during the same period.

J.C. Penney announced it made $136m after tax in the three months to April 25, compared with $80m a year earlier (excluding the effect of an accounting change).

Its retail sales during the period increased from $3.43bn to $3.79bn – a rise of 10.5 per cent. Penney said unit sales had accelerated "significantly" in four merchandise divisions. However, it also acknowledged that gross margins slipped slightly.

Mr William Howell, chairman, said a turnround in the US economy, "coupled with the more recent uptick in consumer confidence, bodes well for retailing generally".

At The Limited, however, it was long faces and news of after-tax profits only marginally higher at $51.5m, against $50.9m, in the 13 weeks to May 2. Moreover, the figure includes a $9m pre-tax gain as a result of the flotation of United Retail Group, the "large size" specialty women's wear retailer in which The Limited holds a 20 per cent stake.

Sales increased by 10.2 per cent, to $1.42bn, and The Limited said its Victoria's Secret stores had enjoyed a record first quarter.

Mr Leslie Wexner, chairman, said he was disappointed by the performance. "In addition to the external factors of sluggish mall traffic, a difficult economic environment and unseasonably cold weather, we also created some of our own merchandising problems," he said.

Nordstrom slides 16% despite sales increase

By Nikki Tait

NORDSTROM, the Seattle-based stores group and one of the stars of the US retail sector in the late-1980s, has reported a 15.9 per cent fall in first-quarter profits.

The fashion retailer, which has been hit by the west coast recession, said it made $21.6m after tax in the three months to the end of April, compared with $25.7m in the same period a year earlier.

Sales in the first quarter rose 8.7 per cent, to $663.8m. However, Nordstrom's finance director, Mr John Goesling, said sales trends had not "improved enough to offset the higher costs of doing business".

Meanwhile, May Department Stores, which operates 319 department stores across the US under names such as Lord & Taylor and Kaufmann's, and 3,304 shoe stores, reported after-tax profits of $81m for the 13 weeks to May 2.

The result compares with $76m in the same period a year earlier. Total net retail sales in the period were up from $2.17bn to $2.3bn.

Olympics costs hit net at Turner Broadcasting

By Alan Friedman

COSTS associated with coverage of the winter Olympics contributed to a sharp decline in first-quarter net earnings at Turner Broadcasting System, the media and entertainment group that controls the CNN cable network.

Although revenues were 12 per cent higher at $365.2m, the first-quarter net profit was only $731,000, against $3.8m a year ago. At the operating level, the profit dropped by 9 per cent to $51.1m.

Revenues for the entertainment division of Mr Ted Turner's company rose by 20 per cent, to $170.5m, thanks to increases in subscription revenue and advertising at the TNT cable network. However the entertainment unit's operating profit fell to $16.1m from $27.9m in the first quarter of last year.

Operating profits from the news division – which includes CNN – increased to $42.4m from $31.1m on revenues that were 9 per cent higher at $125.3m.

Losses on the sports division, which includes an equity stake in the Atlanta Hawks basketball team, rose to nearly $4m from $2.1m a year ago.

● The New York Times, whose delivery drivers have been on strike since last week, said the strike had cost millions of dollars. Mr Lance Primis, president of the paper, said the losses consisted of plant and equipment damage, lost sales and rebates to advertisers.

Mr Primis said he was unaware of distribution problems spreading beyond the suburban areas of Westchester County and Long Island in New York, and in Connecticut.

He said there had been bomb scares at the newspaper's Manhattan headquarters and damage to some lorries in the loading bays of the newspaper.

Citicorp moves to lift capital ratios with swap offer

By Alan Friedman

CITICORP yesterday offered to swap two types of preferred stock for up to 21.1m common shares, in a move aimed at strengthening its common equity-to-assets capital ratio.

The effect of the stock swap would be to strengthen Citicorp's common equity base on paper by as much as $537m, increasing the common equity-to-assets ratio from a 3.42 per cent to 3.67 per cent.

The proposal is part of the bank's drive to bolster capital ratios, which are among the weakest of the big US commercial banks. The bank has been raising cash by way of asset disposals and private and public offers of debentures.

The last preferred stock issue was a $175m public offer in March, which carried a 9 per cent coupon. Last year the bank placed $1.2bn of preferred stock privately, half of it with a Saudi prince. The rates on last year's two placings were 11 per cent and 10⅛ per cent.

Ms Nancy Newcomb, Citicorp's senior executive in charge of funding, said the stock swap proposal would offer investors a tax-free and commission-free exchange of preferred stock into the more widely held and actively traded common shares. The bank, in turn, would improve its equity base by issuing common shares representing up to 5.7 per cent of total common stock outstanding.

Mr Tom Hanley, senior banking analyst at First Boston, the investment bank, praised the stock swap offer as "a positive step aimed at getting capital ratios up."

The offer provides for 3.72 common shares to be exchanged for each of 3.9m shares of second series preferred stock, and 4.40 common shares for each of the bank's 1.5m shares of third series preferred stock.

Flat profits forecast at Citizen Watch

By Robert Thomson in Tokyo

CITIZEN Watch, the Japanese watch and information equipment maker, has blamed slowdown in the domestic economy and a sharp drop in capital spending for a 20.4 per cent fall in pre-tax profit, to Y16.89bn ($127m), for the year to the end of March.

The decline is expected to be characteristic of Japanese companies' fiscal 1991 results, as is the company's forecast of flat sales and profits for the present year.

For last year, Citizen reported a 4.7 per cent fall in sales, to Y236.2bn, in spite of a 5.9 per cent increase in unit sales of wrist watches at 162.6m. The company said sluggish sales of luxury models were behind a bare 1 per cent rise in watch revenue.

Sales of industrial machinery and equipment fell 18.8 per cent, as Japanese companies cut capital spending, while sales of floppy disk drives fell 24.3 per cent because of troubled computer markets in the US and Europe. However, sales of notebook-style computers rose 5.3 per cent.

As with many Japanese companies over the past year, Citizen softened the impact of economic slowdown and high interest rates by tapping its cash reserves, which fell from Y73.17bn to Y54.76bn. Meanwhile, it reduced its exposure in the stock market and sharply increased its holdings of bonds, from Y34m to Y9.4bn.

Citizen said the the condition of the domestic economy was "still critical", while recovery in Europe and the US appears to have been delayed. For the year, pre-tax profit is forecast to rise 0.6 per cent, to Y17bn, on a 1.6 per cent increase in sales to Y240bn.

Singapore group nears Malayan Credit takeover

CYCLE and Carriage (CCL), the diversified Singapore-based vehicle group, is nearing victory in its month-long battle to take over Malayan Credit, the family-run property concern, Reuter reports from Singapore.

CCL, which is making the takeover bid in partnership with Hotel Properties, said it had bought an additional 6.1m shares of Malayan. The partners now own 48.88 per cent of Malayan Credit's total shares. CCL offered a price of S$2.25 a share when the bid opened on April 10.

CCL, a leading car distributor diversifying into property and food businesses, said last month its takeover offer was conditional on it and Hotel Properties acquiring a combined stake of more than 50 per cent. With a 50 per cent stake, CCL could wrest control of the property group from Singapore's Teo family, which owns about 34 per cent of Malayan.

Malayan's land bank in Malaysia and its prime office and residential properties in Singapore and Malaysia are expected to blend well with CCL's property portfolio in Singapore and Malaysia.

Japanese broker seeks emergency financial aid

By Emiko Terazono in Tokyo

YAMATANE Securities, a second-tier Japanese broker, has requested emergency financial support from Sakura Bank, a leading commercial bank. The request reflects the severe conditions facing the Japanese broking industry.

Yamatane's move comes at a time when the company faces steep losses because of the weak stock market, low dealing volume and compensation payments arising from its involvement in stock manipulation disputes.

For the last fiscal year to March, the broker expects to have run up a pre-tax loss of Y9bn ($67.66m) and an after-tax loss of Y24.2bn.

Although Yamatane is the first leading second-tier broker to make such a move, there is speculation that others may follow suit.

Second-tier brokers, which have traditionally relied on broking commissions, have been hard hit by the decline in market activity. The downturn has forced the houses to rely more heavily on unrealised gains on stock holdings, which have also been eroded by the sharp falls in share prices.

Nine of the 10 second-tier brokers are forecasting losses for last year, while most are cutting costs by closing domestic branches and rationalising international operations.

Sakura, which has traditionally enjoyed close ties with Yamatane, said it was considering supplying the broker with low-interest rate loans and sending officials to aid restructuring.

Yamatane also hopes to sell some of its long-term bank shareholdings, which could affect already weak Japanese bank share prices.

Nampak ahead 14% to R123.4m

By Philip Gawith in Johannesburg

INCREASED volumes, improved market share and higher exports allowed Nampak, South Africa's largest packaging company, to record increased turnover and earnings in the six months to the end of March.

Turnover at the Barlow Rand subsidiary was 13 per cent up at R2.21bn ($770m), while operating profit was 16 per cent higher at R250.3m.

Improved margins were the result of 2.4 per cent volume growth, improved productivity, plant rationalisation and tight cost controls.

Attributable profit rose 14 per cent to R123.4m. Earnings per share were 13 per cent higher at 258 cents, while the dividend was lifted 5 per cent to 79 cents per share.

Mr Brian Connellan, chairman, said most divisions in the packaging segment had achieved real growth.

Looking ahead, Mr Connellan said although lower interest rates and improved export prospects would help the economy, these benefits were outweighed by the impact of continuing unrest, unemployment and the drought.

He said the level of increase in earnings for the full year was likely to be below the first-half level.

● Two other companies in the Barlow Rand group reported higher interim profits. Attributable profits at Tiger Oats rose 13 per cent to R154.4m, while earnings at Imperial Cold Storage (ICS) were 29 per cent higher at R30.8m.

Mr Robbie Williams, chairman of Tiger Oats, said the higher profits, achieved on a 4.4 per cent rise in turnover to R4.4bn, reflected the group's diverse base, strong brands, and the benefits of upgrading plant and technology.

ICS benefited from a restructuring programme introduced 18 months ago, with the 29 per cent rise in earnings achieved on a turnover increase of 8 per cent to R1.2bn.

Cash call at Australian mining group

By Kevin Brown in Sydney

PANCONTINENTAL Mining, the Australian resources group, yesterday announced a one-for-three rights issue to raise A$42m (US$31.80). The issue is intended to finance exploration and strengthen the company's balance sheet by retiring debt.

Mr Lindsay MacAlister, managing director, said Pancontinental wanted to strengthen its overall position before deciding whether to increase capacity at its Kunwarara magnesite operation in Queensland.

The proposed expansion would increase capacity for deadburn magnesia to 150,000 tonnes a year from 100,000, and boost production of electrofused magnesia to 25,000 tonnes from 15,000.

Mr MacAlister said Pancontinental would require A$20m over three years for increased exploration and evaluation of mineral prospects and a further A$20m to optimise capacity at the mines and associated facilities.

Pancontinental said it would concentrate expenditure on the Paddington/Kundana gold mines in Western Australia, the Thalanga base metals operation in Queensland, and the tantalum mine at Wodgina in Western Australia.

The company said about 55.52m shares would be issued with acceptances closing on July 3.

Simint pins Wall Street hopes on Armani

Haig Simonian looks at the latest in a small group of Italian companies to offer shares to US investors

Giorgio Armani, Italy's best-known clothes designer, needs little introduction in the US, where fashion-conscious buyers tend to snap up his creations.

Whether fund managers act the same way towards Simint, the Italian clothing group in which Mr Armani has a 20 per cent stake, is another matter given the lack of international interest in Italian equities.

Simint is the latest in a tiny group of Italian companies which have given US investors the chance to buy their shares via American Depository Receipts (ADRs). Issuing ADRs should make the stock more attractive by saving US buyers the bother of going through the Italian market.

In spite of roadshows in Boston and New York last week, it is probably too early to tell whether the operation has been a success. With the Milan bourse hitting new lows, sentiment towards Italian shares is not at its brightest.

Simint, run by Mr Luca Ramella and chaired by Mr Francesco Micheli, the Milan financier whose Finarte group owns 20 per cent of its shares, has been reinforcing its link with Mr Armani while pinning its hopes on the US.

Last September, Mr Armani announced the creation of a new chain of US shops, called Armani Exchange, or A/X for short.

They aimed to concentrate on jeans and casual wear that were sold through his second-line Emporio Armani chain, while developing new lines of lower-priced Armani-badged products.

According to Mr Armani, the initiative was not so much a move downmarket as an attempt to make his apparel accessible to a new range of buyers. "We want to build up a clientele which lasts for the future," he said.

Micheli: his Finarte group has 20% stake in Simint

Simint is providing the means. The company produces jeans, knitwear and childrens' clothes for the Armani group, as well as casual and childrens' clothing for Moschino and Versace, two other top Italian designers.

The purchase in 1990 of Best Company and Marina Yachting, two Italian clothing brands, substantially increased Simint's turnover, which should rise by about 11 per cent to almost L370bn ($297.2m) for the year ended April, 1992.

Net profits should be in line with the L17.2bn made in 1990-91. But Mr Ramella points out this year's figure includes allowance for the heavy sums ploughed into A/X in the US.

The new venture marks the first time Simint has invested directly in retailing, rather than just manufacturing.

Although the new stores will be closely identified with the Armani group, which will be responsible for design, layout and promotion, it is Simint which is providing the cash as well as making the garments.

The first store opened in New York in December. A second is due to open in Santa Monica shortly, and a further four should be operational by late summer.

Meanwhile, 16 A/X "shop in shops" have opened in big department stores, with a further four to come soon with 10 by late summer.

Turnover had been very encouraging in spite of US consumers' reaction against certain branded items, said Mr Ramella. Sales at the New York showcase store exceeded $2.1m by the end of last month.

The target is to sell $60m of goods in the first year.

That should rise in 1993, when there will be additions to the US chain and possibly some European openings too. The first A/X outlet in Europe is scheduled to open next spring.

Stimulating the interest of foreign funds is part of Mr Ramella's efforts to have the company's ordinary and prefered shares, which yesterday closed at L4,660 and L2,803 respectively, re-evaluated.

"News of the A/X project didn't particularly help our share price. Italian investors have a very negative view of such US ventures. It's seen as a big risk, as many Italian companies have gone wrong in that market," he said.

The ADRs, which are being issued by Citibank, could be a way of interesting US investors and filling the gap left by Italian institutions.

Bank head urges market evolution

By Richard Waters

A SINGLE European stock market for wholesale investors should develop through competition between national markets, not be imposed from Brussels, Mr Pen Kent, an executive director of the Bank of England, said yesterday.

In the first detailed comments by a Bank director on EC investment regulation, Mr Kent argued strongly that rules from Brussels should not be allowed to inhibit the development of London's international share market. "Imposing a solution could mean losing the benefits of diversity and competition," he said.

His comments were made at a conference in London, organised by the Financial Times, on the international securities markets.

Mr Kent said that the question of stock market transparency - the extent to which details of completed trades are published to the market - was central to the debate. He defended the lack of transparency in London's share market, arguing that greater trade publication would discourage marketmakers from supporting the market. "Revealing more information, through publication, will tend to help the less informed, but will also reduce the appeal of the market place to informed traders."

Also, marketmakers' quotes of the prices at which they were prepared to buy or sell shares constituted a form of "pre-trade publication" which was in some ways preferable to publication of completed trades, he said.

It was better to have different publication rules in different EC states, rather than to impose a single system. "The conflict is between real efficiency and the appearance of fairness," Mr Kent said.

His comments had received support earlier from Mr François Bacot, director general of Bacot-Allain, the French arm of SG Warburg and author of a report last year on the development of wholesale share trading in Paris. "The permanent quotation of bid-offer spreads and volumes provides all the necessary information" to keep investors informed, he said.

Mr Bacot said that the debate over EC regulation, which had pitted the UK and French against each other in

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arguments over the ideal market system, failed to recognise that different systems suited different types of investor. "Instead of asking us to choose one or the other, wouldn't it be better to try and make them work together, since it is certainly in the interest of the markets to offer their members a large variety of trading systems," he said.

Mr Brandon Becker, deputy director of the market regulation division of the US Securities and Exchange Commission, launched a strong defence of immediate trade publication. Transparency is essential for investor protection, encourages investors to participate in a market and promotes open competition, he said.

Brazilian paper group plans to launch $150m offering

By Sara Webb in London and Tracy Corrigan in New York

THE first Brazilian issue in the international equity markets is due later this month, the latest in a steady stream of Latin American company issues.

INTERNATIONAL EQUITY ISSUES

Aracruz Celulose, the pulp and paper group, plans to raise $150m. It will be followed in the autumn by Telebras, the Brazilian telecom group.

Aracruz is expected to attract considerable interest from both the US and Europe, in spite of Brazil's reputation for high inflation and record of political instability, especially when compared with Mexico, the best developed of the Latin American markets.

Its supporters believe Aracruz will be a success for two main reasons: emerging market investors are hunting around for new Latin American stocks, and analysts are forecasting a recovery early next year in the pulp and paper sector.

The company, which has a leading international position in the production of eucalyptus pulp, generates some 80 per cent of its revenues in hard currencies.

The Aracruz initial public offering, consisting of 10m American Depositary Shares, is being lead managed by Salomon Brothers. The international tranche will consist of 3m ADSs, while 7m ADSs will be offered in the US and Canada. The proceeds will be used to reduce short-term cruzeiro-denominated debt.

In a separate development, the international equity offering for Telmex, the Mexican telephone monopoly, was priced yesterday at $56.125 per American Depositary Share – the same as the last sale price in the US.

Although the $1.4bn offering was judged a success, demand from European investors was not as strong as expected and the international tranche had to be scaled back. Out of a total of 25m ADSs, only 8.65m of the original 9.5m in the international tranche were sold and the remainder were sold in the US and Mexico.

Investment bankers noted that international investors who had already bought Telmex at $27.25 in last year's international equity offering saw little reason to increase their stake at $56.125 per share.

Enquirer/Star Group offer

AN OFFERING in the US market last week gave a fresh twist to the existing equity-linked structure and could prove to be an attractive alternative to straight equity issues and convertible debt.

Enquirer/Star Group, which publishes the National Enquirer and other US publications, launched a $135m offer of zero coupon notes with warrants to buy 4.86m shares of the company's common stock.

The structure, designed by Salomon Brothers, provides a similar pattern of returns for investors as Low Yield Option Notes (Lyons).

Both structures have tax advantages for investors, but also offer cheaper funding for issuers as the warrants are treated as paid-in capital and a greater portion of the implied interest is tax-deductible.

While the Lyons structure typically includes a put option, allowing investors to demand early redemption of principal after five years, the Enquirer/Star Group notes have a five-year maturity.

The company is buying warrants from Boston Venture, a venture capital group which owns an equity stake in the company, and then selling similar warrants to investors at a slightly higher price. As a result, the venture capital group is able to sell off its stake at a higher price.

The deal, which closes later this week, is two-and-a-half times oversubscribed, according to Salomon Brothers.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.20	16.73	16.73
0100	17.19	16.77	16.77
0130	17.24	16.85	16.85
0200	19.30	16.91	16.91
0230	19.30	17.04	17.04
0300	19.30	[illegible]	16.75
0330	17.24	16.91	16.91
0400	17.22	16.85	16.85
0430	17.22	16.82	16.82
0500	17.21	16.85	16.85
0530	17.28	16.82	16.82
0600	17.28	16.82	16.82
0630	17.60	16.91	16.91
0700	20.18	16.84	16.84
0730	22.84	19.39	20.87
0800	23.91	27.38	28.75
0830	29.89	28.55	31.07
0900	29.89	29.39	32.02
0930	29.89	24.58	25.81
1000	27.08	24.53	26.74
1030	27.08	24.24	26.36
1100	[illegible]	24.28	26.39
1130	24.72	24.71	25.87
1200	25.91	25.18	27.62
1230	25.91	24.57	26.78
1300	23.90	23.29	25.19
1330	23.90	21.17	22.69
1400	23.77	20.70	22.09
1430	22.84	20.53	21.88
1500	22.84	20.54	21.89
1530	23.77	20.60	21.98
1600	23.77	20.94	22.43
1630	23.90	24.05	25.70
1700	28.29	24.24	25.94
1730	28.29	23.79	25.37
1800	23.66	23.27	[illegible]
1830	22.49	19.13	20.37
1900	21.42	18.98	20.21
1930	20.79	18.98	20.21
2000	17.65	18.98	20.21
2030	17.80	21.56	22.66
2100	26.49	22.84	23.94
2130	26.49	22.63	23.98
2200	26.49	21.59	22.66
2230	26.49	18.98	20.21
2300	21.18	18.98	20.21
2330	20.19	18.91	[illegible]
2400	18.90	16.91	16.91

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

INTERNATIONAL COMPANIES AND FINANCE

IPMA urges EC to revise proposals for new rules

By Simon London

LEADING Eurobond firms yesterday struck out at proposed European Community securities regulations, claiming that the new rules would drive securities business from the EC.

The International Primary Markets Association, which represents new issue underwriters, called for substantial amendments to two proposed directives – the Capital Adequacy Directive (CAD) and Large Exposures Directive (LED). These lay down rules governing the amount of capital which must be set aside by firms against securities holdings, including underwriting positions.

IPMA commissioned Coopers & Lybrand Deloitte, the accountancy practice, to study the effects of the proposed directives on Eurobond underwriting. The study examined the underwriting business of seven firms over the course of last year. It concluded that the proposed EC rules "would require levels of capital greatly in excess of amounts currently committed" by new issue firms. This would increase the cost of new issue underwriting.

The report said that the proposed rules:

- Do not allow a long enough "window" in which new issues can be sold to investors by underwriting firms before full capital adequacy requirements start to bite.

A survey of seven leading underwriting firms found that in most Eurobond issues "a material balance" of securities remained unsold even 10 days after the deal was launched. The CAD allows only a five-day underwriting window in which concessionary capital rules apply.

- Do not take account of hedging strategies which allow securities firms to limit interest rate risk. For example, a firm can hedge a long position of securities by taking an equal short position in the futures market. Such hedging activity is not recognised by the draft CAD.
- Are too harsh on firms which take a very large underwriting position, by acting as sole underwriter in a "block trade" of securities, for example.

The LED was drafted to control large loans made by banks and imposes a limit on loans over 25 per cent of the institutions' capital backing.

The Coopers' study argued that securities positions are less risky than loans exposure since the securities can usually be sold if the issuer runs into trouble. Hence the 25 per cent "hard limit" on securities exposures should not apply.

The latest drafts of the two directives were circulated in April and are currently under consideration by EC governments.

- Meanwhile, Mr Geoffrey Fitchew, director general of the EC division preparing the regulations, said that a significant breakthrough had been made in negotiations in recent days over the capital adequacy directive.

Member states, which had pushed for strict limits on the underwriting risks investment firms could take on, have indicated that they are prepared to accepted less stringent rules, he said. This is considered one of the main sticking points in the development of the directive, and is one of the main concerns of the bond market.

Mr Fitchew added that the directive, under discussion for the past four years, was entering a critical phase and could be agreed within the next six weeks.

Treasuries firm on rise in producer prices

By Patrick Harverson in New York and Simon London in London

US TREASURY securities firmed across the board yesterday after a modest rise in April producer prices left the monetary authorities with room for another policy ease.

In late trading the benchmark 30-year issue was up $\frac{11}{32}$ at $101\frac{12}{32}$, yielding 7.855 per cent. The two-year note was also firmer, up $\frac{1}{32}$ at 100¾, yielding 5.154 per cent.

The morning's inflation news was good, with the core producer prices index rising just 0.2 per cent last month, a slightly smaller increase than expected. Analysts said that while the data was unlikely to trigger a cut in interest rates, it did leave the window open for any easing if the Federal Reserve felt inclined to provide the sluggish economic recovery with some additional stimulus.

Although the consensus in the market appears to favour an interest rate cut, analysts said monetary policy was unlikely to be changed until after next Tuesday's meeting of the Fed's Open Market Committee.

GOVERNMENT BONDS

■ UK government bond prices rose yesterday following the release of factory gate price data which suggested that inflationary pressures in the economy were weakening.

The June gilt futures contract on Liffe, the London futures exchange, opened at 98.18 and fell to 98.13 early in the session before the inflation data was released. However, in the afternoon the contract traded up to 98.26 before settling back to close at 98.20. Volume was light at 28,000 contracts.

In the cash market, the benchmark 9 per cent gilt maturing 2011 closed at $98\frac{13}{32}$, unchanged on the day, for a yield of 9.04 per cent.

Analysts were encouraged by figures for factory gate prices in April, which showed a 0.4 per cent rise on the month, well below market expectations of a 0.8 per cent rise.

Prices rose at a year-on-year rate of 3.8 per cent, from 4.5 per cent in March, the largest monthly drop in this measure of inflation since 1983. However, while the figures were encouraging, investors will be paying more attention to retail price inflation data due to be released on Friday.

■ THE GERMAN government bond market remained subdued yesterday, with most market participants waiting for the outcome of the current round of wage negotiations before committing funds.

Yesterday, IG.Metall, the engineering and metal workers' union, said that it would decide whether to ballot its 65,000 members over strike action on May 18.

The June bund future on Liffe opened at 87.18, and drifted down to 87.10 by mid-morning, in line with other European markets. However, the future rose though the afternoon session encouraged by the positive tone of the US Treasuries market and closed at 87.22. Volume was again sluggish at 40,000 contracts.

The benchmark 10-year 8 per cent Unity bond closed at 100.17 for a yield of 7.97 per cent, unchanged from Monday.

The French government bond market consolidated the gains of the last week, with the yield spread over the German market stable at just over 60 basis points through the day. The 8½ per cent French government OAT maturing 2002 closed on a yield of 8.57 per cent, also unchanged on the day.

■ JAPANESE government bond prices were firmer overnight in Tokyo, led higher by the strong performance of US Treasuries.

However, in the absence of new domestic factors trading remained thin. Trading in the benchmark bond amounted to just Y112bn.

The benchmark government bond issue No 129 actually fell on the day, closing on a yield of 5.60 per cent, from 5.59 per cent at the opening. Analysts said that investors were starting to switch into longer-dated paper. The issue No 129 matures in June 2000.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	104.3257	+0.673	9.34	9.33	9.21
BELGIUM		9.000	06/01	101.2500	+0.050	8.60	8.76	8.88
CANADA *		8.500	04/02	99.9800	+0.250	8.51	8.63	8.67
DENMARK		9.000	11/00	101.2200	-0.030	8.59	8.66	8.61
FRANCE	BTAN	8.500	03/97	99.0500	-0.152	8.73	8.88	8.78
	OAT	8.500	11/02	99.3500	-0.080	8.58	8.76	8.63
GERMANY		8.000	01/02	100.1200	-0.020	7.97	8.04	7.88
ITALY		12.000	02/02	98.7300	-0.050	12.22†	12.30	12.34
JAPAN	No 119	4.800	06/99	94.7800	+0.054	5.84	5.98	5.78
	No 129	6.400	03/00	104.6221	+0.199	5.55	5.67	5.48
NETHERLANDS		8.250	02/02	99.5600	-0.030	8.30	8.36	8.25
SPAIN		11.300	01/02	102.3500	-0.020	10.58	10.64	10.66
UK GILTS		10.000	11/96	102-22	+2/32	9.25	9.31	9.43
		9.750	08/02	103-28	-2/32	9.16	9.20	9.20
		9.000	10/08	99-22	-3/32	9.04	9.07	9.05
US TREASURY *		7.500	11/01	101-31	+7/32	7.36	7.56	7.35
		8.000	11/21	101-18	+11/32	7.86	8.02	7.88
ECU (French Govt)		8.500	03/02	99.1200	+0.020	8.63	8.81	8.59

London closing *New York closing. Yields: Local market standard. † Gross (including withholding tax at 12.5 per cent payable by non-residents.) Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

A$ deals feature while activity slows

By Sara Webb

ACTIVITY in the international bond market slowed yesterday after Monday's busy start to the week, with a handful of deals in Australian dollars and European currencies.

Shell Australia and Coca Cola Amatil both came to the market with Australian dollar deals which were well-received, helped by the fact that the short-to-medium end of the market has been relatively starved of new issues recently.

INTERNATIONAL BONDS

Westpac, which lead managed Shell's A$100m five-year bond, noted strong demand for Australian dollar bonds, saying that recent redemptions have left investors with Australian dollars which need to be reinvested.

The Inter-American Development Bank (IADB) launched a DM500m 10-year issue with a coupon of 8⅛ per cent and priced to yield 8.22 per cent, or 10 basis points over the September 1991 German government bond.

The IADB issue represents part of the bank's core funding and Deutsche Bank, the lead manager, said the bonds were bought mainly by domestic investors given that foreign interest in D-Mark issues is rather limited. The bonds traded at 99.80 – within fees – by mid-afternoon.

In the French franc sector, SNCF launched a FFr1 bn zero coupon bond, lead managed by Crédit Commercial de France. The six-year bond is fungible with SNCF's earlier FFr1bn issue. It was priced to yield 8.67 per cent, the same as the 9.5 per cent OAT due 1998, but 22 basis points over the level where the first tranche is trading in the secondary market.

The bond was reoffered at the issue price of 58.60 and traded at 58.55-58.65 according to the lead manager. About 35 per cent of the issue was sold to Swiss investors and 20 per cent to French investors.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Banco Nacional SA(c)	100	10½	99.602	1994	1⅜/¾	Citicorp Inv.Bk.
AUSTRALIAN DOLLARS						
Coca-Cola Amatil(a)†	75	9¼	101¾	1995	1½	Westpac Banking Corp
Shell Australia(a)†	100	9¾	101¼	1997	2/1¼	Hambros Bank
FRENCH FRANCS						
SNCF(b)	1bn	zero	58.60	1998	18/10bp	Crdt.Comm.de France
ECU's						
Kommuninvest(a)†	65	9⅝	101.087	1995	1⅜/1.15	Natwest Cap.Mkts.
SWISS FRANCS						
Helaba(a)**†	100	7⅛	101¾	1996	-	Swiss Volksbank
D-MARKS						
IADB(a)†	500	8⅛	101⅜	2002	2/1⅜	Deutsche Bank

**Private placement. §Convertible. #With equity warrants. ‡Floating rate note. †Final terms.a) Non-callable. b)1bn tranche, fungible with existing 1bn issue. Non-callable. c) Coupon payable semi-annually. Non-callable.

Barclays Bank downgraded by Moody's

BARCLAYS Bank yesterday lost its last remaining triple-A credit rating when Moody's Investors Service, the US agency, downgraded its long-term debt to Aa1, writes Simon London.

Standard & Poor's, the other big US agency, downgraded Barclays an equivalent level last year. IBCA, the UK agency which has specialised in rating financial institutions, followed suit in March.

Moody's said that the trends which have eroded Barclays' profitability "could become steeper and more protracted than currently expected, if the pace of UK economic growth does not pick up during this year".

Yesterday, Moody's cut the long-term credit rating of Swiss Bank Corporation from triple-A to AA1. On Monday, S&P said that its was maintaining its top rating of SBC debt.

Singapore brokers in merger deal

SINGAPORE brokerage company J Ballas Holdings will take over the Singapore and Hong Kong offices of the brokerage Citicorp Vickers, Bloomberg reports from Hong Kong.

As part of the merger deal, Citicorp Vicker's parent Citicorp will take a stake of about 30 per cent in the enlarged JBH group and appoint three directors to its board, Citicorp said.

The current Citicorp Vickers subsidiaries in Hong Kong and Singapore will operate under the name Vickers Ballas.

Citicorp, which has not given any indication of the price of the merger, says that its Citicorp Vickers offices in other countries will not be directly affected.

KFW issues Germany's first 'stripped' bonds

By David Waller in Frankfurt

THE Kreditinstitut für Wiederaufbau (KFW), the state-owned bank, has launched Germany's first issue of "stripped" bonds.

The DM200m issue was arranged by Metallbank, a Frankfurt merchant bank. The deal comprised of 8 per cent 30-year bonds which were issued at a price of 101.25 yesterday for a yield of 7.87 per cent.

However, the interest payments on the bonds have been "stripped" and repackaged into an issue of 20-year zero coupon bonds.

The financing technique originated in the US Treasury market. Investors can choose whether to buy either the 20-year bonds in the normal way, buy the zero coupon paper, or buy the underlying bond without any entitlement to interest.

The structure is designed in part to appeal to private investors, who often prefer to buy long-dated zero coupon bonds on tax grounds. There is no tax to pay until these bonds are redeemed in 20 years time.

The deal was launched with the permission of the Bundesbank and the Frankfurt Stock Exchange. Market sources suggested that the Bundesbank itself, and larger German banks, would adopt this funding technique later this year.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on May 12

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	4	54	21
Other Fixed Interest	1	8	8
Commercial, Industrial	358	329	765
Financial & Property	168	122	502
Oil & Gas	17	19	52
Plantations	0	2	7
Mines	21	41	65
Others	44	41	43
Totals	613	616	1,483

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

- First Dealings May 1
- Last Dealings May 15
- Last Declarations August 6
- For settlement August 17

3-month call rate indications are also shown on this page.

Calls in Acorn Computer, Aegis, BAT Inds., Bucknall, Emess, Expedier Leis., Farringford, J. Finlay, Hanson warrants, Hazlewood Foods, Lucas Inds. ord. and warrants, P & P, Pelon, Ratners, Real Time Control, Rosehaugh, Sanderson Elects., Scottish Metropolitan, Speybank and Vistec. Put in Speybank. Puts and calls in Amber Day, ASDA, Hanson warrants and Premier Cons.

LIFFE EQUITY OPTIONS

[illegible]

Eurotrack 100 Index Calls 0 Puts 0

*Underlying security price. † Long dated expiry months. Premiums shown are based on middle prices.

TRADITIONAL OPTION 3-month call rates

	p								
■ INDUSTRIALS		Charter Cons.	37	Ladbroke	14	Sears	8	■ OILS	
Allied-Lyons	49	Comm Union	34	Legal & Gen	22	SmKl Bchm A	60	Aviva Pet	25
Amstrad	6½	Courtaulds	39	Lex Service	18	TI	48	BP	20
Astec (BSR)	3	Eurotunnel	29	Lloyds Bank	32	TSB	11½	Burmah Castrol	44
BAT Inds	10	FKI	6	Lonhro	12	Tesco	22	Conroy Pet	7
BOC	53	FNFC	7	Lucas Inds	12½	Thorn EMI	63	Gaelic Res	½
BTR	32	Forte	21	Marks Spencer	27	T & N	11½	Premier Cons	2½
Barclays	26	GKN	30	Midland Bank	30	Unilever	70	Shell	33
Blue Circle	25	Gen Accident	38	NatWest Bank	25	Vickers	13	Tuskar Res	½
Boots	39	GEC	15	P & O Dfd	37	Wellcome	80	■ MINES	
Bowater	60	Glaxo	59	Racal Elect	5	■ PROPERTY		RTZ	47
Brit Aerospace	26	Grand Met	35	RHM	18	Brit Land	19		
British Steel	6½	GRE	12	Rank Org	55	Land Sec.	34		
Brit Telecom	24	Hanson	18	Ratners	2½	MEPC	26		
Cadburys	33	ICI	95	Reed Intl	44	Mountleigh	1½		

Midland chief eases Hong Kong fears over offer

By Simon Davies in Hong Kong

A PRESENTATION yesterday by Mr Brian Pearse, chief executive of Midland Bank, to Hong Kong's investment community has resulted in a growing sense that the Hongkong and Shanghai Banking Corporation's bid for Midland can succeed and that it would benefit the banking group.

Fund managers had expected few revelations. But Mr Pearse provided reassurance to HSBC shareholders in his commitment to the merger and his view that the counter-bid by Lloyds Bank stood little chance of passing the scrutiny of the Monopolies and Mergers Commission.

Midland Bank will appeal on Friday to a hearing of the full council of the Takeover Panel following yesterday's ruling by the panel's executive that Midland should provide Lloyds with financial information it has already given to Hongkong and Shanghai Banking Corporation.

"If the exercise was designed to get Hongkong Bank shareholders to look at this deal favourably, then I think they achieved this purpose", said one research director who attended the meeting.

There had been considerable initial scepticism towards the deal from Hong Kong investors. They were opposed to the dilution of high growth south-east Asian earnings through the acquisition of a European bank. Suspicions remain as to the real benefits of global banking.

"The arrival of Pearse has helped develop an understanding of Midland by Hong Kong investors. It also shows he is keen and it shows he gets on well with the Hongkong Bank", said Mr Peter Philips, portfolio manager at Fidelity International Investment Management.

"I can't think there will be enough opposition to block it. Given the dispersion of shareholdings, if there was any opposition to the bid, we would have felt the groundswell by now," he said.

Fund managers said the meeting provided reassurance that Midland's earnings cycle was in a strong recovery phase, while Lloyds Bank's interest in Midland had already helped persuade analysts that HSBC could be on to a good deal. The HSBC share price reacted favourably to the Pearse presentation, climbing 25 cents to HK$44.50.

The main concern in Hong Kong remains the possibility of the bank being forced to sweeten its offer. This will clearly depend on the existence of concrete alternative bidders.

But analysts took encouragement from the comments of Mr John Gray, HSBC's deputy chairman, who also attended the meeting. Mr Gray would not directly discuss the possibility of a higher offer, but he pointed out that such a move would be likely to hurt the HSBC share price. This would lower the value of the offer for Midland, which has now risen to 422p, compared with 378p when the offer was announced on April 14.

Hopes of savings may be over-optimistic

By Robert Peston

THE HOPES of Lloyds and Hongkong and Shanghai Banking Corporation of making big immediate cost savings if either of them buys Midland Bank may be over-optimistic.

That is the implication of a detailed study of European bank mergers by Salomon Brothers, the US investment bank, and Mr Steven Davis, the banking consultant and founder of Davis International.

THE BATTLE FOR MIDLAND

Mr Davis argues, on the basis of an investigation of nine mergers involving big European banks, that shareholders in those banks have benefited only modestly from post-merger cost cuts.

He says: "While many European merger partners have largely achieved targeted savings in staff, branch numbers and overall expense levels, we believe that most if not all of those economies could have been obtained without the merger."

The combination of Alegemene Bank Nederland and Amerstdam-Rotterdam Bank, which was announced in 1990, was in one sense a model for Lloyds' proposed bid. It involved the merger of two of the Netherland's biggest banks, of roughly equal size, to create by far the largest Dutch bank, now called ABN Amro.

Mr Davis highlights two hitches in ABN Amro's attempts to make cost savings.

It did not want to make forced redundancies, so was forced to pay more than projected in voluntary severance packages. Lloyds has also said that it hopes not to make forced redundancies in meeting its target of reducing staff numbers at the combined banks by 20,000.

Potential redundancy costs are less of a concern to Hongkong Bank, since it has relatively small operations in the UK and therefore would be unlikely to shed staff in great numbers.

ABN Amro also encountered problems in linking the computer systems. It is unlikely to unify the administration or back office systems till late 1994. This is relevant to both Hongkong Bank and Lloyds, since both hope to make savings by unifying their computer systems with Midland's.

As a result of such redundancy costs and systems problems, Mr Davis is "not optimistic about the possibility of realising significant net cost savings [at ABN Amro] in the near future".

Mr Davis also argues that mergers tend to work better, in terms of generating additional profits, if the managers of one bank become the dominant force in the combined banks.

A failure to eliminate managers is costly in itself. But a multiplication of managers often also leads to delays in the process of making decisions on how to reorganise and reduce overheads.

Lloyds Bank has to date not spelled out its proposals for top management. Hongkong Bank is planning to retain most of Midland's senior directors, who would run Midland as an autonomous subsidiary.

However, Hongkong Bank's directors would fill the senior positions in the parent company and therefore play the dominant role.

Hongkong chief says 'no material' redundancies

By David Owen

HONGKONG AND Shanghai Banking Corporation intends making "no material" compulsory redundancies should it succeed in taking over Midland Bank, according to Mr William Purves, chairman.

In a private letter to Ms Marjorie Mowlam, Labour's corporate and City affairs spokeswoman, Mr Purves also said that Midland management would be "very much as it is today" albeit with the addition of "a number of executives who know the HSBC group well."

These additional managers would "help to ensure that synergy benefits are quickly achieved." Midland's "highly selective" rationalisation of its branch network would "continue under its own management."

Lloyds Bank, Hongkong's rival for Midland, has also said that it plans no compulsory redundancies while admitting that 20,000 job cuts might be necessary.

Bifu, the banking union, has claimed that a Lloyds takeover would jeopardise at least 30,000 jobs as the bank brought its combined staffing level down to that of their remaining competitors.

Mr Purves, who is due today to meet with Conservative backbenchers, was complimentary about Midland's management in a number of areas, saying he had been "personally impressed" by their record of innovation.

He sought to emphasise how four years of co-operation had resulted in Hongkong Bank and Midland becoming quite familiar with each other's operations.

"The banks know each other very well. We have been working together for four years now with cross secondments of senior people between both banks."

Evode sells part of shoe business to cut debt

By Peggy Hollinger

EVODE, the adhesives, sealants and coatings company, moved to strengthen its balance sheet with the announcement yesterday that it is selling, for £11.9m, the shoe components business acquired as part of its protracted bid battle for Chamberlain Phipps in 1989.

Mr Andrew Simon, chairman, said the proceeds would be put towards the group's debt which was £46m at the end of September. On a pro forma basis, Evode would have gearing of about 61 per cent after the sale, he said, compared with 78 per cent in September.

The decision to sell was due to the sharp slowdown in footwear sales and the aim to focus on adhesives and coatings. The division represented about 30 per cent of the original Chamberlain business with sales of £48m and profits of £1.7m for the year to September 92.

The business has been sold to Mr Dan Sullivan, a US investor, and Legal & General Ventures. Some £9.7m will be paid in cash.

Fenner falls 38% to £2.3m and halves pay-out

By Jane Fuller

THE ABSENCE of a recovery in its UK businesses led Fenner, the engineering group, to halve its interim dividend and to warn of a similar cut in the final payment. Its share price fell 11p to 86p yesterday.

An uncovered dividend of 1.7p (3.45p) was announced alongside a 38 per cent fall in pre-tax profits to £2.28m (£3.71m) for the six months to February 29.

The UK part of the business, which accounted for about 40 per cent of the £97.7m (£100.5m) turnover, incurred a loss after interest. This aggravated the problem of unrelieved ACT and the tax rate rose from 53 per cent to 62 per cent.

After a minority charge of £685,000 (£728,000), mainly relating to the 50 per cent-owned South African subsidiary, earnings per share fell to 0.41p (2.38p).

Mr Peter Barker, chairman, said power transmission had been worst hit by the UK recession.

Other UK companies were profitable, including conveyor-belt manufacture which had been concentrated on Hull after a closure in Scotland.

A further 5 per cent of the UK workforce had been made redundant, bringing the total cut to 20 per cent – well over 400 jobs. Altogether cost cutting moves had knocked £800,000 off operating profit.

One of the group's priorities was to enhance UK earnings, for instance through acquisitions offering rationalisation opportunities.

About 85 per cent of the £4m (£5.63m) operating profits were made overseas, with South Africa a star performer. Profits held up in North America, where the fluid power subsidiary had a record order book.

In continental Europe, deteriorating demand in France and Germany had had an adverse effect on the UK factories. Australia was undergoing its third depressed year.

Net debt rose from £30.5m last August to £38m, gearing of about 60 per cent. Interest costs were nearly £2m (£2.37m).

● COMMENT

Fenner is showing all the signs of being squeezed for cash. Halving the dividend will save £2.5m this year and capital spending has been cut from £6.5m to £4m, two thirds of depreciation. Interest cover has shrunk to roughly 1.5, if you leave out the 50 per cent of the South African business that it does not own (South Africa accounted for nearly half of operating profit). Year-end gearing will still be near 60 per cent. In terms of trading, the most encouraging area is North America. In the UK, demand in the capital goods sector remains depressed and Fenner will not be an early recoverer. Meanwhile, continental Europe and South Africa are deteriorating. A full-year pre-tax profit forecast of £4.5m leaves the prospective p/e ludicrously high after big tax and minority charges. It still looks high on a £7m forecast next year. Dividend support? A halved total gives a prospective yield of 6.6 per cent, above the market but not sufficiently so to give cast-iron support.

Peter Barker: UK business incurred a loss

Holmes Protection improves restructuring terms

By Richard Gourlay

HOLMES PROTECTION, the US security company, yesterday said it had improved the terms of a restructuring agreement with its lenders and expects to announce a crucial $37m (£21m) share issue next month.

The company, which does most of its business in the US but has a London quotation, first agreed a restructuring in February with seven North American institutions which are owed $70.5m on loans now in default.

New management, under the chairmanship of Sir Ian MacGregor, former chairman of British Steel, still has to raise at least $27m through the share sale in order to remain a going concern.

The new deal involves the lenders swapping their debt into a minimum of 19 per cent of the equity in return for $28m raised in the share sale.

The earlier agreement envisaged lenders taking 15 per cent in return for a payment of $33.5m.

The new structure will give Holmes an additional $5m of working capital and was good for shareholders, said Mr Eric Kohn, chief executive.

The seven lending institutions have also agreed to subscribe up to $10m of the $37m share issue if necessary, which would leave them with a 40 per cent stake in Holmes.

Under the new deal, lenders will also hold unquoted warrants equivalent to 5 per cent of the enlarged capital. These can be exercised at the issue price after 12 months.

Smith Barney Harris Upham, the US securities house, is acting as agent for the US private placement; Peel Hunt is acting as the company's stockbroker; and Brown Shipley, the London Merchant bank, is sponsoring the deal which still requires shareholder approval.

Chink of light but shares marked down 9p after profit taking

GA cuts first quarter loss to £29m

By Richard Lapper

THERE WAS a chink of light for the UK's beleaguered general insurance sector yesterday when General Accident, the third biggest of the UK's composite companies, showed a reduced pre-tax loss for the first quarter.

Losses for the three months to March 31 amounted to £29.2m, slightly ahead of expectations and an improvement of £45.5m compared with the same period of 1991.

This was "a move in the right direction by anybody's standards," said Mr Nelson Robertson, chief general manager.

GA's satisfaction was marred, however, by the response from the market which marked the shares down 9p to 489p, a fall which largely reflected profit taking by traders after a strong performance by the shares over the last month.

First quarter losses per share were cut to 5.4p (13.6p).

Underwriting losses were down 20 per cent to £129.6m (£162.2m), with losses in the UK down by nearly a third to £65.2m (£92.8m).

The underwriting improvement reflected a series of premium increases over the past 15 months and comparatively light weather-related losses.

A decline in subsidence claims and the impact of premium increases reduced losses in the UK homeowners' sector to £7.8m (£20.9m). Commercial property losses also fell to £9.7m (£21.7m), although the London bombs of April 10 and 11 will cost a further £6m in the second quarter.

Rising claims costs in motor business are holding back improvement in the UK motor sector, where underwriting losses amounted to £26.5m compared with £32m a year earlier, despite heavy premium increases during the past 12 months.

Investment income was up to £110.4m (£102.7m) and, adjusted to take into account interest paid, to £97.1m (£84.5m).

Estate agency losses were down to £4.5m (£5.2m) and profits from life businesses emerged slightly lower at £7.8m (£8m).

The group's financial position has also improved marginally over the first quarter. Net assets per share amounted to 317p (as of May 8), up 1p on the 316p recorded at the end of 1991. The solvency margin (the yardstick measuring net assets as a percentage of non-life premiums) was down marginally at 42 per cent (42.6 per cent).

Lydia van der Meer

Nelson Robertson: a move in the right direction by anybody's standards

COMMENT

After over a year in the doldrums, the last few weeks have seen the composites outperform the market by 15 per cent, a performance bettered only by the more obviously politically sensitive water stocks. Although there is some concern that the shares are now trading at too high a premium to net asset value, most analysts were inclined to attribute yesterday's fall simply to profit taking. The results indicate that the general insurance sector may be entering a recovery phase in its traditional cycle with recent premium increases feeding through into improved underwriting results. GA, which has only a minimum exposure to domestic mortgage indemnity business, is – barring major accidents – well placed to benefit. It appears bound to significantly reduce – and possibly eliminate – its pre-tax losses this year. The figures are also encouraging on the dividend front.

Union Intl gets closer to agreement on debt standstill

By Peggy Hollinger

UNION International, the heavily indebted trading arm of the private Vestey Group, is putting the finishing touches to a standstill agreement on £350m debt owed to some 70 banks.

Mr Paul Taylor, the former Lonrho executive who joined as Union's finance director in March, said yesterday that the group was "a long way down the road" to completing the agreement.

The standstill, expected to be announced in July along with 1991 results and a rationalisation programme, would run to December 1994.

The Vestey family – which controls the Vestey Group, one of the UK's largest private companies – will provide an injection of more than £35m as part of the agreement, Mr Taylor said, but no more. Union has had to give the banks certain covenants, such as the disposal of assets. Several asset sales were under way, Mr Taylor said.

The announcement last week that 600 of its 1,006 Dewhurst butchers shops were to be sold formed part of the disposal programme. However, the announcement had also in part been prompted by the fact that the 600 shops were incurring losses.

He said Union had also discovered possible fraud – amounting to between £1m and £2m – at one of its businesses.

Some of the money had been recovered and Union was considering legal action.

N America restrains overseas growth for Marks and Spencer

By John Thornhill

MARKS AND Spencer's international businesses recorded a mixed performance in the year to March 31 with good growth from mainland Europe and south-east Asia being offset by another weak performance from North America.

But the bulk of the group's business is still conducted in the UK where sales suffered as a result of the recession, slipping by 0.6 per cent to £4.92bn. Turnover from clothing and general sales fell 2.4 per cent to £2.7bn with the food division rising 1.7 per cent to £2.22bn. Operating profits rose from £603.1m to £638.7m.

The company provided further details of its retrenchment in Canada where it was reducing its stores by 31 to 42 at an exceptional cost this time of £30m.

Earlier this month, M and S announced it was in talks to dispose of its Peoples Division. A £13.8m extraordinary provision was made on the anticipated loss on the disposal, writing off a further £16m in goodwill.

M and S had previously wrote off goodwill in its reserves. This year's provision in its profit and loss account is to comply with new accounting procedures. The company stressed this would have no additional impact on cash flow or reserves.

The Brooks Brothers chain in the US and Japan, which has struggled in the face of tough retail markets in North America, lifted profits from $11.1m to $18.2m (£10.2m).

Brooks spent £6m in capital expenditure and shut one store while relocating two others. Another seven outlet stores will open by mid-year although Brooks warned that its Japanese offshoots were beginning to detect signs of a weakening economy.

The 17-store Kings Supermarkets chain in the US spent £7m in capital expenditure but its sales and margins suffered from competitive discounting.

Sir Richard Greenbury, chairman and chief executive, said: "Things are beginning to improve but there will not be any quick fix in America. It will take between three and five years."

The emphasis on overseas expansion is increasingly being directed at mainland Europe, where the number of stores increased by five to 17 with Nantes, Toulouse, Liege, Amsterdam and Seville being added to the list. Yesterday the company opened another store in The Hague in the Netherlands.

Mr Keith Oates, finance director, said the company was continuing to see productivity improvements in both stores and head office. "We have not only increased our profits but also our profitability," he said.

The company spent £305m in capital expenditure last year of which £227m was in the UK and the Irish Republic. About £41m was applied to upgrading computer systems helping to improve stockturn and drive down inventory costs.

The number of full-time equivalent (FTE) staff in the UK and Irish Republic fell from 38,970 to 35,850 as M and S flexed its cost base but productivity per FTE grew strongly by 15 per cent to £17,800.

M and S added 535,000 sq ft of trading space during the period with four edge-of-town stores, two town centre shops and five neighbourhood stores in the UK.

The company had net borrowings of £261m at the year end representing gearing of 9.7 per cent, down from 13.5 per cent a year before. Interest income was £10.8m (£13.3m).

By region operating profits were UK and Irish Republic £638.7m (£603.1m); continental Europe (less opening costs) £23m (£20.4m); US £14.5m (£10.3m); Canada £5.8m loss (£3.6m) and Far East £5.4m (£3.3m).

The company's financial activities, including treasury, insurance and financial services functions, contributed £23m (£20.1m) to profits.

Worcester falls to Bosch as offer goes unconditional

By Maggie Urry and Norma Cohen

ROBERT BOSCH, the German conglomerate, yesterday declared its £71.8m offer for Worcester Group, the central heating boiler maker, unconditional.

It has acceptances or has acquired shares totalling 51 per cent of Worcester's ordinary equity.

The offer, of 225p a share in cash or loan notes, will remain open until further notice.

Worcester shares fell 2p to 219p yesterday, after the Takeover Panel ruled on Monday against an appeal by a group of shareholders which had been unhappy with the some of the terms of the offer.

These investors, with 27 per cent of the shares, were concerned about a deal struck between Bosch and Worcester's management under which the management would have a continuing equity interest in the business. They also felt the price being offered was too low.

It emerged yesterday that the Takeover Panel was divided over its decision to allow Bosch to proceed with its offer for Worcester. Following presentations by both sides, several panel members privately expressed concerns that the offer talks failed to take account of the interests of non-management shareholders. Members of Worcester's management and their families have 38.4 per cent of the group's shares.

There were also concerns about the message that approval of the bid would send to other continental companies considering making a UK acquisition.

While the matter never proceeded to a formal vote, members were said to have been persuaded by the argument that Bosch's offer contained considerable equity risks for Worcester's management who will be shareholders in the newly-formed Bosch subsidiary.

The dissenting investors have yet to decide whether to retain their shares or accept the offer. They could continue as a minority in the hope of obtaining a better price for their shares later.

However, the position of minority shareholders in such circumstances is not often strong, and few have been successful in negotiating a higher offer. They could find that the stock market quotation of the shares is lost, making it difficult to trade in the shares, and that dividend payments are small.

A minority with over 25 per cent of the shares could prevent Bosch from passing special resolutions which might be necessary to restructure Worcester's business, or merge it with Bosch's Junkers subsidiary.

But continental companies are accustomed to dealing with minority shareholders. Bosch's readiness to declare the bid unconditional suggests that it is not overly concerned by the threat.

If more than 90 per cent of investors accept the offer Bosch can apply to the court for permission to buy the rest compulsorily.

Expanding network for GWR

GWR Group, the USM-quoted independent radio contractor, is to add Isle of Wight Radio (Holdings) to its growing roster of local commercial radio stations in the south of England, with a recommended £257,000 bid.

GWR is offering 10 new ordinary shares for every 56 IoW Radio shares. That values each IoW Radio share at 50p, based on GWR shares at 288p, up 3p yesterday.

IoW Radio has net assets of £205,800 and tax losses of £290,000. In the year to October 31 it achieved turnover of £494,326, and Mr Ralph Bernard, GWR chief executive, said it was "close to break-even".

IoW Radio's advertising will be wrapped up in, and will extend by 25 per cent, 2CR's (Two Counties Radio) marketing area around Bournemouth. It is estimated that it will contribute about £500,000 to GWR's turnover and £100,000 to profit.

Futura sells safety shoe offshoot

Futura, the Greater Manchester-based shoe company, shares in which were suspended in March pending clarification of its financial position, yesterday sold its Honeywell safety footwear business to Lambert Howarth for £996,769, writes Richard Gourlay.

The company also said that Mr Bev Oates, its chief executive, resigned on May 5.

Proceeds of the disposal will be used to repay bank debt.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Contra-Cyclical ......fin	4.5	June 30	-	11.25	-
Donelon Tyson ......fin	1.2	Aug 27	1	1.2	1
Fenner ......int	1.7	Aug 5	3.45	-	8.55
Marks & Spencer ......fin	5	Aug 7	4.7	7.1	6.7
McLeod Russel ......int	2.75	July 16	2.75	-	5.85
Narboro' Plants ......int	0.5	June 29	0.5	-	1.5
Vaux ......int	3.25	July 3	3.1	-	9.2

Dividends shown pence per share net except where otherwise stated.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Avon Rubber, Diploma, Greenalls, Scottish Value Trust.

Finals- Allied Irish Banks, City of Oxford Inv Trust, Firstland, Gates (Frank G), Sainsbury (J), Yorkyde

FUTURE DATES

Interims-

Albion ...... May 21
Calor ...... Sep. 16
Countryside Properties ...... May 19
Daily Mail & General ...... June 10
Dobson Park ...... May 21

Finals-

Babcock Intl
Baris ...... May 28
Cakebread Robey ...... May 15
Caskar ...... May 29
Corporate Services ...... May 27
Halls Homes & Gardens ...... May 19
Jarvis Porter ...... May 22
Latham (James) ...... May 18
Moorgate Smaller Co's ...... June 23
New Throgmorton Trust ...... June 10
Plysu ...... May 21
Ralston Inv Trust ...... May 20
South West Water ...... May 19
Thorn EMI ...... May 28

Surprise move follows Countrywide's downgraded forecast

Bank of Scotland in NZ$53m bid

By Terry Hall and James Buxton

THE BANK of Scotland yesterday announced it was making a full bid for the Countrywide Bank at a cost of NZ$53m (£15.8m).

The surprise move followed a downgrade in Countrywide's forecast profits this year and difficulties in raising equity capital from minority shareholders.

Under last month's agreement, Bank of Scotland was to take a 60 per cent stake in the enlarged Countrywide, following the latter's purchase, for NZ$182.5m, of the United Bank from the troubled State Bank of South Australia.

As part of that deal, Bank of Scotland announced it was buying a 20 per cent holding in Countrywide from General Accident, the UK insurer.

It would underwrite Countrywide during its expansion and capital raising, which would make it the sixth largest retail bank in New Zealand.

However, a statement from Countrywide yesterday linked Bank of Scotland's decision to make the full bid to Countrywide's demand for capital following the United takeover.

It said equity of about NZ$180m, compared with Countrywide's current capital of NZ$133m, would be needed to replace short-term funding needed to buy United.

The statement to the New Zealand stock exchange said Countrywide's profit for the year to June 30 would be "disappointing".

Normal trading profits after tax would fall to about NZ$9m (NZ$17.9m) as a result of continuing pressures on interest margins and bad debt positioning.

Combined with the extra costs that would be involved in taking over United, that had led directors to re-evaluate prospects of raising the extra capital required in the present market through the planned cash issue.

Countrywide directors said that a "closer examination of the problems involved" had led to the conclusion that Bank of Scotland should accept full responsibility for the long term capital needs of United.

A significant reduction in minority holdings would have occurred had Countrywide gone ahead with the cash issue, they said.

All directors, including three independents, supported Bank of Scotland's bid of $NZ2.05 a share, the same as paid to General Accident for its holding. Before the takeover, Countrywide shares were trading at NZ$1.90.

Bank of Scotland explained yesterday that it had decided to purchase the outstanding 40 per cent stake in Countrywide when it became clear that raising extra capital through a rights issue would have been expensive for minority shareholders.

It would have had to underwrite the rights issue and would probably have ended up increasing its stake in Countrywide in any case.

It was therefore better, the bank said, to make an outright offer for the remaining stake.

Donelon defies the sector trend with £3.1m

By Andrew Taylor, Construction Correspondent

DONELON TYSON yesterday became one of the few construction groups able to boast even a small increase in profits and dividend for last year. The announcement lifted the shares 3p to 44p.

Pre-tax profits moved up from £3.02m to £3.06m, despite a 15 per cent decline in turnover to £80.9m. A substantially reduced tax charge led to an increase in earnings per share from 4.01p to 4.61p.

As a result the dividend is lifted 20 per cent to 1.2p (1p), when many construction companies have been struggling simply to maintain payments.

Mr Sean Donelon, chairman, said the group had performed well in difficult markets. He expected to maintain modest progress in the current year.

The group steered clear of speculative residential and commercial property developments, and had not been required to make costly write downs on land bought in the late 1980s.

One of its strengths is its tunnelling business which sells almost entirely to British water companies.

About a third of contracting turnover – down from £59m to £55m – was generated from tunnelling.

Contracting profits, however, slipped to £4.5m (£5m) on lower turnover from general construction. Contracting margins held up against the current market trend.

Property development profits fell to £450,000 (£720,000) and merchanting profits to £358,000 (£572,000).

On the other hand losses from the industrial insulation business, which is being discontinued, were cut to £1m (£1.3m).

Net debt of £14m at the year-end represented gearing of 90 per cent on shareholders funds of £15.5m. But borrowings were expected to be reduced by more than £3m with negotiations at an advanced stage for the sale of the Skelmersdale Estate industrial property development. This would cut gearing to about two thirds of shareholders' funds.

Vaux declines 19% to £15m as recession hits hotel operation

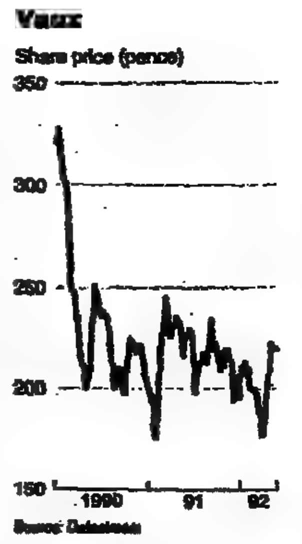
By Philip Rawstorne

THE IMPACT of "continuing deep recession" in the hotel industry reduced interim pre-tax profits at Vaux Group, the Sunderland-based brewer, by 19 per cent, from £18.6m to £15.1m.

Trading profits of the group's Swallow hotels declined from £5.41m to £4.87m during the 24 weeks ended March 14. Occupancies dipped from 56 per cent to 53 per cent and room rates were nearly 4 per cent lower.

Additional financing costs for two new hotels at Bristol and Bexleyheath raised interest charges from £3.47m to £5.07m; and the group incurred a loss of £203,000 on its 50 per cent stake in a Bournemouth hotel.

However, current trading offered a "glimmer of recovery," said Mr Paul Nicholson, chairman. "Although rates remain under severe competitive pressure, our forward bookings are up 5.2 per cent on last year, giving us hope that the worst may be behind us."



Pre-tax profits were boosted by an exceptional item of £5.59m (£7.3m). Trading profits were ahead 7.5 per cent at £15.3m (£14.2m) with turnover on continuing businesses up from £93.2m to £99.1m.

Brewing profits rose 20 per cent, from £6.06m to £7.3m, as the breweries, helped by a contract to supply Labatt, the Canadian brewer, with 40,000 barrels of low-alcohol lager, operated at 90 per cent capacity.

Total beer sales were marginally lower against a fall of about 4.2 per cent for the industry in general.

Draught sales, with 104 additional pubs trading during the period, were 2.4 per cent up; but packaged sales in the home market were 5.1 per cent down, mainly in low profit commodity beers.

The care homes achieved an overall occupancy of 89 per cent and lifted trading profits from £1.3m to £1.67m.

Earnings per share fell 11 per cent to 9.35p (10.51p) but the interim dividend is raised to 3.25p (3.1p).

Reject opportunistic bid says Cronite director

By Peter Pearse

MR DAVID Pinsent, the lone voice on the Cronite board against the recommended £7.3m offer from AFE, the quoted French engineering company, has strongly advised shareholders to reject the "opportunistic" bid.

Mr Pinsent, who controls 0.9 per cent of the Birmingham-based engineer, said that all Cronite's subsidiaries were now trading profitably.

However, Mr James Lindsay-German, chief executive, described Mr Pinsent's letter to shareholders as "a damp squib", saying it did not worry him as it contained nothing new. "Most of it has been trailed for some time."

Mr Pinsent said Cronite's positive cash flow from current trading was reducing gearing, now down to about 50 per cent and falling. By contrast, AFE's was about 100 per cent and would rise with the acquisition. "It would seem that AFE needs Cronite more than Cronite needs AFE."

Mr Pinsent said since the offer in April, the UK stock market had risen about 12 per cent, interest rates had been reduced, and there were growing signs of recovery in the UK economy. He asked: "Could there be a less appropriate time to accept a cash offer for a recovering company ?"

Mr Lindsay-German countered by saying that AFE now controlled 26 per cent and had irrevocable undertakings for a further 14.8 per cent.

Cronite returned to the black in the six months to March 31, helped by lower interest charges. Profits were £311,000 (losses £2.21m).

Cronite shares were unchanged yesterday at 45p.

European Motor 90% rights take-up

European Motor Holdings' recent £17.4m rights issue has been accepted in respect of 15.7m shares (89.9 per cent). Some 17.5m new shares were offered at 105p per share.

Subscribers for the balance of shares not taken up have been procured at a price of 129p per share.

Profits warning clips 9p from UB share price

By Peter Pearse

Shares in United Biscuits fell 9p to 419p yesterday after Mr Robert Clarke, chairman, warned the annual meeting that there would be "some overall decline" in the group's first-half profits.

He blamed this on "a disappointing first quarter performance and a slower than anticipated uplift in the second quarter" at Keebler, the US biscuits subsidiary.

Last March, Mr Clarke said there had been no sign of an upturn in UB's main markets in either the UK or the US.

He told yesterday's meeting that the position had "not fundamentally changed".

There were now some small signs of recovery in the UK, but US consumers were continuing to trade down to lower value products, thereby impacting on Keebler's branded products.

Mr Clarke expected the rest of UB's business to at least match the previous year's outcome.

NEWS DIGEST

McLeod Russel at £2.05m

CUSTOMERS of McLeod Russel Holdings, the maker of paint and varnish, seem to be becoming more confident about the future, claimed Mr Nigel Openshaw, the chairman.

In his report covering the six months to March 31 he said pre-tax profit had marginally improved to £2.05m, against £1.96m. Turnover was £21m (£20.8m).

Conditions continued to be difficult for the surface coating companies.

The commercial vehicle market remained depressed and average batch sizes were small. The market for Granyte Surface Coatings did not improve, although profits rose as result of cost cutting and improved efficiency.

The market for car paint distribution deteriorated, but marine paints traded at a profit.

Earnings per share came to 3.13p (3p). The interim dividend is held at 2.75p and the strong balance sheet and ample cash resources underpinned the final (3.1p last time), Mr Openshaw concluded.

Contra-Cyclical meets forecast

At March 31 1992, net asset values at Contra-Cyclical Investment Trust were 34.75p for the capital, 3.69p for the income, and 55.8p for the zero rated preferred shares.

The trust was formed on February 26 1991 and started trading on March 28.

For the initial period to March 31 1992, gross income totalled £1.68m and net revenue came to £1.12m.

Earnings per income share were 13.94p and the final dividend is 4.5p for the forecast total of 11.25p.

Manakin repays 295p per share

Manakin Holdings, the venture capital company formerly known as Abingworth, reported net asset value of 111p at April 15, against 383p six months earlier. During the period shareholders have had returns of capital totalling 295p.

The company is in members voluntary liquidation but will maintain its listing to allow an orderly disposal of its unquoted investments.

During the period its gilts holdings were sold for £51.6m against a cost of £50.5m. Holdings in quoted US companies raised $14.6m (£8.2m) having cost $3.7m but unquoted company shares raised $596,000 against a cost of $1.33m. The liquidator said further sales would be made and another capital repayment would be made before the end of 1992.

Earnings per share for the six months to April 15 were 1.25p. The net profit of £256,594 has been transferred to revenue reserves.

Personal Assets net assets up 18%

Personal Assets Trust reported a net asset value of 70.92p per share as at April 30 – an improvement of some 18 per cent over the year.

Net revenue amounted to £250,000, up from a restated £216,000, for earnings of 1.67p (1.45p) per share. A second interim dividend of 0.85p, making a total of 1.6p for the year, was announced last month.

Capital and Regional purchase

Capital and Regional Properties has bought a £7.6m property in Kingston-upon-Thames from the receivers of Sheraton Securities.

The property, known as Adam Walk and Eve House, has 10 retail units producing an initial £398,500 per year rising to £405,000 per year after two years. It also has a 15,700 sq ft office building, let to the Department of Employment at a rent of £275,000 per year rising to £299,500 per year after two years.

Mr Martin Barber, chairman, described the purchase as "a tremendous opportunity for future rental growth and improving yield as the property market comes out of recession."

Narborough Plants higher at £176,000

Narborough Plantations, Malaysian-based palm oil and rubber production company, reported pre-tax profits up from £146,000 to £176,000 in the six months to December 31. With no tax, earnings per share were 1.22p (1.1p).

There was a difference on exchange of £82,000 (£45,000) from conversion of assets in foreign denominations. Estate operating profit was £60,000 (£54,000) helped by higher palm oil and rubber prices and increased palm oil output but offset by lower rubber production.

An unchanged interim dividend of 0.5p is declared.

Australian company leads Russian gold chase

By Leyla Boulton in Moscow and Kevin Brown in Sydney

A SMALL Australian company is trying this week to complete the first ever deal giving foreigners a direct stake in Russia's closely guarded gold mining industry.

Star Technology Systems, a private consortium led by Mr Ian MacNee, is negotiating terms with Lenzoloto, a local Siberian gold producer, to buy a 31 per cent stake in all its operations – including the development of the Sukhoi Log mine, said to be Russia's largest proven hard rock gold deposit.

State-owned Lenzoloto holds exclusive government licences for mining operations covering 105,000 sq km (40,000 square miles).

It will be a coup in every respect if the deal goes through.

Star, with recommendation from the Australian Embassy in Moscow, last month overcame a mountain of bureaucratic obstacles and vested interests to reach this stage of negotiations.

The Russian government, which is anxious to attract foreign investment in its effort to introduce a market economy, had to overcome fierce internal wrangling in order to give Lenzoloto the right to negotiate the participation of a foreign partner.

For Lenzoloto, this represented a considerable triumph: A local producer, it was able manage its own affairs after decades of tight control from Moscow.

That control was exercised through the centralised monopoly organisation, Glavalmazzoloto, which dominated the mining and marketing of gold and precious stones. The organisation, which has since been renamed Rosalmazzoloto to cover only Russia rather than the former Soviet Union, led the resistance to the Star project.

Star's achievement so far looks even more impressive considering that standing behind it is Central Mining Corporation – a listed Australian company which is also headed by Mr MacNee and which has an option to buy Star's interest in the joint stock company being set up by Lenzoloto for the purposes of bringing in badly-needed foreign capital.

Central, which made losses in 1989, 1990 and 1991, was suspended from the Australian Stock Exchange from November to April for failing to file the quarterly exploration and working capital reports required by the Australian authorities.

Its 1991 accounts were delayed because of inquiries which were made by Price Waterhouse, the auditors. And in December 1991, it had working capital of only A$75,000 (£31,000).

These factors do not constitute an argument against Central Mining's involvement in the project, however. When small exploration companies come up with a big project, they simply look for bigger sources of financing.

But the fact that such a small company – rather than one of the established giants of the western gold mining industry – is now negotiating the first big gold deal in Russia, reflects the difficulties and risks of trying to do business in Russia.

Two years ago, while big mining companies remained on the sidelines, apprehensive about gaps in legislation, continuing political instability and unclear ownership rights, Star began scouring the country for opportunities.

It all began when a husband and wife team came over to work on a deal to extract platinum from waste left by Russian miners.

Through a combination of luck and coincidence, they also became acquainted with Mr Boris Yeltsin, who said he would support them if they could find a partner in the gold business.

It was a bold challenge at a time when Mr Yeltsin, who was still chairman of the Russian parliament, had not even wrested control of Russian gold resources from the Soviet leadership.

Two years on, Mr Yeltsin is president and the country's supreme master. His young government of economic reformers is actively seeking foreign capitalists in order to underpin its market reforms.

But even now, it is still unclear whether or not the deal will be allowed too go through.

A government official said legal questions remained over whether it could go ahead. He also suggested that there could be problems with the price Star was prepared to pay for the stake, which he put at $50m.

Part of the problem he explained, was the secrecy that traditionally surrounded the Russian gold mining industry, which meant that it was "not quite clear what Star would be getting 31 per cent of".

He said Star had managed to get close to the deal because the big companies had not shown any interest – "They usually prefer to have a controlling interest" – while Lenzoloto needed money quickly. He said the government had not done "much digging" into Star's background.

Mr Greme Ellis, Central's company secretary said last week that it was too early to predict the cost of developing the project, but that the deal would be financed through a mixture of equity and debt.

Central has a shareholder agreement allowing it to expand its capital from 100m shares of 2 cents each to 500m. This implies the ability to raise some A$80m at last Wednesday's market price of 21 cents, which compares with the 6 cents at which they were relisted last month.

Mr MacNee said capital increase by Central was one of the options being considered, if the company was to be involved at all. "Money is not the problem, the main issue now is getting the documentation right," he said.

Indonesia's coffee pot begins to overflow

Enthusiastic growers have not been deterred by historically low prices, writes William Keeling

A CHART spread the length of the lobby wall of the Association of Indonesian Coffee Exporters logs the demise of the world price for Indonesia's robusta coffee from 1985. With London robusta contracts languishing at 22-year lows, space on the wall has mercifully run out; the price has literally dropped off the chart.

The response of Indonesia's 1.8m coffee farmers to market forces has been perplexing: whilst reducing exports in an attempt to hold up prices, they are nevertheless expanding production.

The association has forecast exports of coffee at 303,540 tonnes for the year ending September 1992, down 21 per cent from last year. That would compensate for relative oversupply of the market the year before: trade officials say world demand for Indonesian coffee for blending purposes is between 330,000-360,000 tonnes a year.

Between last October and the end of March, Indonesia exported 78,000 tonnes, and harvesting of the main crop began last month. Production of 476.280 tonnes is forecast this year, continuing the upward trend which has led to 53 per cent growth in production since 1985 making Indonesia the world's third largest producer. The association forecasts production next year of 511,920 tonnes.

Association officials say Indonesia's 1.8m smallholders, who produce 90 per cent of the crop, are stockpiling their harvest. Historically, farmers have normally held between 100,000 and 120,000 tonnes in stock, but by last October stocks had fallen to 47,880 tonnes. The association forecasts that stocks will rise to 145,620 tonnes by September.

The bearishness of the international market about robusta coffee has been exacerbated by expectations of heavy sales from Indonesia over the next few weeks. However, Mr M. Yahmadi, head of the exporters' association's production and quality development department, says the farmers will not rush to the market and points out, "It is common for our farmers to keep coffee as savings. When the time comes they will sell, for instance, to go to Mecca".

The association is also lookly for government intervention to help stabilise the export market. It has 1,072 members, but only 300 are active and "making any money". A recent agricultural report by US embassy in Jakarta described the majority of exporters as "now in dire economic straits".

The problem is not just the low world market price but intense competition between exporters within Indonesia. Despite domestic consumption remaining static at 75,000 tonnes a year, the association estimates the domestic price of a kilogram of grade 4 robusta coffee at Rp1,650 (81 US cents), as against an fob export price of 80 cents.

"Exporters lose Rp200 per kilo," says Mr Noer Madjid, the association's executive secretary, after redrying, handling and bagging costs are included. The only incentive to export, officials say, is to maintain customers while waiting for prices to improve.

The association believes, however, that exporters need to be better regulated and last October set out proposals to government. It wants all traders to register their exports and to deposit with the association between 10 and 20 per cent of the value of all export commitments. The greater the quantity commited to export, the higher would be the percentage of export value deposited. This is to ensure that exporters do not commit themselves beyond their own financial resources or beyond Indonesia's production capability.

A government response to the proposal was expected in January, but none has been forthcoming. Association officials want to implement the plan "as soon as possible" and clearly feel frustrated.

The association has also recommended to its members that they combine into groups to reduce competition and enjoy greater economies of scale but the idea has not met with much response. "Before deregulation we had ten groups. Now we do not know," admits Mr Yahmadi.

Steps are being taken to diversify Indonesia away from robusta coffee, which accounts for 93 per cent of production. The remaining 7 per cent is of the milder and more sought-after arabica variety.

A three year trial programme testing high-yielding arabica plants is being undertaken by the association, particularly for use in the higher altitude areas of north Sumatra. But weaning farmers away from robusta will take time. Industry officials expect arabica to increase its share to 15 per cent of production in the next two years but attaining the target of 25-30 per cent of the crop may take "a decade or two", predicts Mr Yahmadi.

Industry officials say there is substantial room for growth in the domestic market, although the price of packaged robusta at Rp12,000 per kilogram in local supermarkets puts it out of reach of the average wage earner.

The association's own figures give cause for pessimism. Production is forecast to outstrip international and local demand by 76,920 tonnes next year. This would leave farmers holding unprecedentedly high stocks of 222,000 tonnes.

The bright spot on the horizon is the strong case Indonesia has for a higher quota if an international coffee agreement is signed. From 1986 to 1990, Indonesia increased exports to quota countries by 49 per cent and the country now accounts for more than 7 per cent of the world export market, association officials say.

"We must be optimistic," says one official with somewhat fatalistic reasoning. "We believe frost one day will come to Brazil".

Papua New Guinea's coffee industry is facing a crisis of confidence, with overseas buyers threatening to withdraw because of quality problems, according to Mr Ricky Mitio, chief executive of the Coffee Industry Corporation, reports Reuter from Port Moresby.

Mitio told reporters that German, British, US, Australian and New Zealand buyers were increasingly reluctant to place orders. Germany's Jacobs Suchard, which normally buys about a quarter of the country's export volume, withdrew last year because of a drop in the quality of premium "Y" grade coffee, said Mr David Smith, the corporation's economist.

"Quality has been gradually deteriorating over three to four years," Mr Smith said. "It really reached a low last year. It basically stemmed from a lot of new, inexperienced exporters."

Mr Smith said a prolonged slump in coffee prices had resulted in many small growers neglecting crops, while government officials said some growers now preferred the more profitable, but illegal, marijuana, which grows wild in Papua New Guinea.

Sugar organisation cuts estimate of surplus output

THE INTERNATIONAL Sugar Organistion's secretariat has cut its estimate of the world sugar surplus in 1991-92 (October/September) to 510,000 tonnes, raw value, from a previous projection of 1.4m tonnes, reports Reuter.

Production is seen totalling only 112.20m tonnes, compared with the previous estimate of 112.84m tonnes while the consumption estimate has been lifted to 111.69m tonnes from 111.44m tonnes.

Estimates for Cuba, South Africa and Zimbabwe were all reduced sharply to 6.85m, 2.20m and 90,000 tonnes respectively, from 7.3m, 2.4m and 390,000 tonnes.

The ISO said the Cuban estimate reflected export indications and the country's declared intention to harvest "every last tonne of sugar".

"Although this is higher than other analysts we feel it is too early to reduce it further when the crop is still in progress," the secretariat said.

Cuban figures received by the ISO showed exports between November and January totalled 994,700 tonnes, up from 976,700 tonnes in the same period the previous year.

Shipments to Japan rose to 159,900 tonnes from 64,600 while Portugal's rose from nothing to received 66,400 tonnes. Cuban exports to the CIS fell to 286,200 tonnes from 464,200 tonnes.

Work on Alcan hydro project remains stalled

By Robert Gibbens in Montreal

ALCAN Aluminium will not resume construction on the C$1bn Kemano hydro-electric expansion project following last week's federal appeal court decision. It said it would delay any further work until every possible court challenge is exhausted, including a fresh environmental review of the project proposed by the British Columbia government.

Alcan won an appeal in the federal court which overruled native and environmental groups' claims that Kemano II should be submitted to a full federal environmental review.

Indian tea crop 25% behind last year's

By Kunal Bose in Calcutta

THE INDIAN tea crop was down by 14.55m kg in the first quarter of 1992 compared with the corresponding period last year.

The shortfall was biggest in south India, which remains under the grip of a severe drought. Out of total production till March of 44.12m kg south India contributed 29.85m kg, which was 10m kg lower than the crop in the first quarter of 1991. Tamil Nadu the crop fell by 6.9m kg, in Kerala by 3.03m kg and in Karnataka 7,000 kg. In north India, according to Mr Vijay Dudeja, spokesman for the industry, the output decline of 4.55m kg was caused by the absence of early showers in north Bengal, where tea bushes have suffered a large-scale pest attack. And in large tracts of Assam tea plucking has been hindered by the prolonged winter. Parts of Assam have also been hit by exceptionally dry weather. The first quarter north Indian crop was 14.27m kg.

Of the total Indian first quarter crop the share of CTC – cut, tear and curl, the type favoured in Britain – was 33.12m kg, of orthodox 10.65m kg and of green tea 350,000 kg. To cater for the change in demand pattern, particularly following the shrinkage in orders from Russia and the other constituents of the former Soviet Union, the Indian tea industry is gradually reducing production of orthodox tea.

According to Mr Dudeja, there have been tea production setbacks in other countries too. Sri Lanka which is in the same agro-climatic zone as south India is way behind last year's production and the African producers have also been contending with drought.

It is estimated that by the end of April, the world tea crop shortfall could be as much as 40m kg, of which India's share is likely to be 25m kg. Tea industry officials consider it highly improbable that the shortfall can be made good in the remaining period of 1992.

In spite of the sharp fall in production, tea prices remain depressed. For example, at the Calcutta auction the average price for leaf CTC up to the end of April was Rs38.49 a kilogram (70.5p), compared with Rs41.07 a kilogram in the corresponding period of 1991. As for orthodox leaf, the price has been Rs38.56 a kilogram, down from Rs43.92.

The virtual disappearance of Russian buying earlier in the season is said to have been the principal reason for the depression in tea prices.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,725-1,750 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.40-3.00 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.90-1.10 (same).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 27.50-28.50 (same).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 130-150 (115-140).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.20-2.30 (2.12-2.18).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.80-5.50.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 56-66 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 2.05-2.15 (same).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 7.75 (same).

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+225	to 1,231,975
Copper	−2,500	to 272,880
Lead	−100	to 134,875
Nickel	+186	to 26,916
Zinc	+625	to 246,300
Tin	−125	to 11,830

WORLD COMMODITIES PRICES

MARKET REPORT

Sentiment on the LME was dampened by the news that IG Metall, the German metals and engineering union, will next Monday decide whether to call a strike ballot. **TIN** initially maintained its recent advance, with three-month metal rising to a new 18-month high of $6,100 a tonne before hitting profit-taking. **COPPER** fell back after three-month metal hit resistance above $2,240, and finished at $2,235 a tonne, still up $3. **ZINC** drifted back, but remained underpinned by technical tightness – three-month metal held above support around $1,255 a tonne. The prospect of more origin selling is weighing on both the **COFFEE** and **COCOA** markets, London dealers said. London coffee prices were helped by a firmer start in New York, but dealers said the near July contract is still vulnerable to a fall back to $670 a tonne. Talk that Costa Rica is reducing its exports helped prices, some traders said. But the overall picture remains bearish. London cocoa prices had regained most of the day's earlier losses by the close as recent origin selling appeared to have petered out, but dealers said the market was braced for fresh supplies.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$17.35-7.45q	+.125
Brent Blend (dated)	$19.80-9.90	+0.10
Brent Blend (Jun)	$19.80-9.90	+0.10
W.T.I (1 pm est)	$20.90-0.95q	
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$229-230	
Gas Oil	$181-182	-1
Heavy Fuel Oil	$76-78	-1
Naphtha	$190-192	
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$336.20	-1.10
Silver (per troy oz)♣	410c	-2.0
Platinum (per troy oz)	$353.10	-1.25
Palladium (per troy oz)	$82.60	-0.25
Copper (US Producer)	104.81c	+0.18
Lead (US Producer)	37.0c	
Tin (Kuala Lumpur market)	14.99r	+0.18
Tin (New York)	278.5c	
Zinc (US Prime Western)	62c	
Cattle (live weight)†	108.77p	+0.75*
Sheep (live weight)†♣	91.46p	-8.58*
Pigs (live weight)†	97.06p	-0.30*
London daily sugar (raw)	$244.2t	+0.4
London daily sugar (white)	$283.0t	+0.6
Tate and Lyle export price	£244.5	-0.5
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£147.5	
Wheat (US Dark Northern)	£120w	
Rubber (Jun)♥	53.25p	-0.50
Rubber (Jul)♥	53.25p	-0.50
Rubber (KL RSS No 1 Jun)	217.0r	-2.5
Coconut oil (Philippines)§	$635.0t	-5.0
Palm Oil (Malaysian)§	$380.0q	+2.5
Copra (Philippines)§	$412.5	-2.5
Soyabeans (US)	£149.0q	-1.0
Cotton "A" Index	59.90c	+0.1
Wooltops (64s Super)	430p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. t-May/Jun. y-Apr/May. w-Apr. z-May. q-Jun. †Meat Commission average fatstockprices. * change from a week ago. ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♣Sheep prices are now live weight prices.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low	
Aug	215.00	215.20	215.00	
Oct	203.00	204.60	204.00	203.00
Dec	190.60	194.00	190.60	
Mar	195.40	-	195.40	
White	**Close**	**Previous**	**High/Low**	
Aug	277.90	278.00	278.50	277.50
Oct	268.00	269.50	268.90	268.00

Turnover: Raw 68 (105) lots of 50 tonnes. White 795 (498)
Paris- White (FFr per tonne): Aug 1537.25 Oct 1480.14

CRUDE OIL – IPE $/barrel

	Close	Previous	High/Low	
Jun	19.86	19.69	19.93	19.75
Jul	19.71	19.73	19.78	19.62
Aug	19.65	19.65	19.60	19.53
Sep	19.56	19.58	19.63	19.55
Oct	19.51	19.55	19.57	19.54
Nov	19.44	19.53	19.50	19.44
Dec	19.43	19.48	19.47	19.40
Jan	19.40	19.45	19.38	19.32
IPE index	19.38	19.59	19.71	

Turnover 24505 (21615)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low	
May	180.00	180.00	180.75	178.75
Jun	178.75	179.75	181.25	178.50
Jul	179.25	179.75	181.50	179.00
Aug	181.00	181.75	182.50	181.00
Sep	183.00	183.50	185.00	182.75
Oct	185.00	185.50	186.75	184.75
Nov	186.00	186.75	187.75	186.00
Dec	187.25	187.50	188.50	187.50
Jan	185.75	185.75	187.00	186.50

Turnover 13371 (15165)lots of 100 tonnes

COTTON
Spot and shipment sales in Liverpool for the week ended May 8 1992 amounted to 145 tonnes, against 116 tonnes in the previous week. Slightly improved demand brought moderate purchases mainly in American, Australian and West African growths.

COCOA – London FOX £/tonne

	Close	Previous	High/Low	
May	540	540	542	537
Jul	563	564	565	557
Sep	586	586	590	582
Dec	619	622	622	615
Mar	649	652	650	646
May	670	673	671	668
Jul	690	693	692	687
Sep	710	712	710	710
Dec	737	738	740	738
Mar	763	766	763	763

Turnover 7311 (4947) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 11 717.83 (715.26) 10 day average for May 12 736.71 (739.94)

COFFEE – London FOX $/tonne

	Close	Previous	High/Low	
May	689	690	683	675
Jul	705	701	705	695
Sep	727	724	728	717
Nov	744	744	747	739
Jan	761	762	765	754
Mar	781	778	781	773
May	807	-	800	800

Turnover:2237 (1820) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 11: Comp. daily 46.02 (47.02) 15 day average 49.60 (49.89)

POTATOES – London FOX £/tonne

	Close	Previous	High/Low	
Apr	111.5	109.0	111.5	109.0

Turnover 173 (178) lots of 20 tonnes.

SOYAMEAL – London FOX £/tonne

	Close	Previous	High/Low
Aug	122.0	-	122.0

Turnover 15 (0) lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low	
May	1265	1283	1280	1265
Jun	1215	1240	1240	1207
Jul	1110	1150	1150	1105
Oct	1240	1250	1240	
Jan	1250	1254	1250	
BFI	1269	1267	1269	

Turnover 132 (88)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low	
May	124.70	125.30	124.70	124.70
Jun	125.70	126.40	125.85	125.70
Nov	114.35	114.55	114.55	114.35
Jan	117.90	-	118.00	117.90
Mar	120.85	-	121.00	120.85
May	123.90	124.15	124.00	123.50
Barley	**Close**	**Previous**	**High/Low**	
May	118.75	118.75	118.75	118.75
Sep	108.20	-	108.35	108.20
Nov	111.90	-	112.00	111.90
Jan	115.20	-	115.40	115.20
Mar	118.25	-	118.40	118.25

Turnover: Wheat 144 (109) . Barley 82 (3).
Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low	
May	126.0	126.0	126.0	125.8
Jul	113.0	112.0	112.7	112.3
Aug	106.0	106.0	105.6	105.5
Sep	106.0	105.5	106.0	105.8
Oct	106.5	106.0	106.5	106.3
Nov	107.0	108.0	108.6	108.5

Turnover:68 (51) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 16,243 lots
Cash	1295.5-6.5	1298-9	1300/1300	1300.5-1.0		
3 months	1321-2	1323.5-4	1332/1322	1326-6.5	1322-2.5	19,094 lots
Copper, Grade A (£ per tonne)						Total daily turnover 103,526lots
Cash	1226-7	1235-6	1231.5/1231	1231.5-2		
3 months	1253-4	1264-5	1261.5/1252	1259-9.5	1251-2	16,208 lots
Lead (£ per tonne)						Total daily turnover 18,824 lots
Cash	290.75-1.25	292.5-3.5	292.5/292.5	292.5-2.75		
3 months	303.5-3.75	305-5.5	305.5/303	305-5.5	303.5-4	1,441 lots
Nickel ($ per tonne)						Total daily turnover 24,282 lots
Cash	7265-75	7275-85	7270/7270	7270-75		
3 months	7355-60	7365-70	7360/7350	7355-8	7360-5	2,739 lots
Tin ($ per tonne)						Total daily turnover 7,154 lots
Cash	6060-70	6040-50		6065-70		
3 months	6070-80	6040-5	6100/6070	6070-75	6075-80	1,122 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 59,015 lots
Cash	1337-42	1331-3	1340/1338	1339-40		
3 months	1257-8	1261-3	1264/1255	1259-60	1257-8	30,892 lots

LME Closing £/$ rate: SPOT: 1.8127 3 months: 1.7850 6 months: 1.7596 9 months: 1.7398

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (fine oz)	$ price	£ equivalent
Close	335.90-336.40	
Opening	336.25-336.60	
Morning fix	334.90	185.777
Afternoon fix	335.25	185.631
Day's high	336.20-336.50	
Day's low	334.90-335.20	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.85	6 months	3.01
2 months	2.90	12 months	3.27
3 months	2.92		

Silver fix	p/fine oz	US cts equiv
Spot	226.18	410.00
3 months	231.55	412.10
6 months	237.80	416.60
12 months	248.40	426.05

GOLD COINS
(Prices supplied by Engelhard Metals)

	$ price	£ equivalent
Krugerrand	335.50-336.50	186.00-187.00
Maple leaf	346.50-347.50	192.00-193.00
New Sovereign	81.00-82.00	45.00-46.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jul	Sep	Jul	Sep
1250	74	88	9	19
1300	40	65	25	38
1350	18	41	53	61
Copper (Grade A)	**Calls**		**Puts**	
2100	132	141	3	8
2200	48	68	17	33
2300	8	24	75	87
Coffee	**Jul**	**Sep**	**Jul**	**Sep**
600	88	86	3	9
650	21	49	16	26
700	5	27	50	53
Cocoa	**Jul**	**Sep**	**Jul**	**Sep**
575	12	35	24	22
600	6	23	43	35
625	3	15	64	53
Brent Crude	**Jun**	**Jul**	**Jun**	**Jul**
1900		64		
1950		47		33
2000		25		57

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
May	335.3	336.7	0	0
Jun	335.8	337.0	335.4	335.1
Jul	336.6	337.9	0	0
Aug	337.2	338.6	338.1	336.8
Oct	338.9	340.3	339.1	338.5
Dec	340.8	342.3	341.2	340.5
Feb	343.0	344.5	343.0	343.0
Apr	345.2	346.7	0	0
Jun	347.6	348.1	348.0	347.7

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
May	351.7	352.1	0	0
Jul	353.7	354.1	354.0	352.5
Oct	357.3	358.0	358.0	358.0
Jan	357.5	358.0	0	0
Apr	359.0	359.5	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
May	408.9	409.2	410.0	407.5
Jun	409.6	410.1	0	0
Jul	410.6	411.3	412.0	409.0
Sep	413.8	414.3	415.0	412.0
Dec	416.4	418.0	419.0	417.0
Jan	420.0	420.6	0	0
Mar	423.7	424.3	0	0
May	427.5	428.2	0	0
Jul	431.3	432.1	0	0
Sep	435.8	436.6	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	100.70	101.00	101.20	100.60
Jun	101.00	101.15	101.05	100.75
Jul	101.10	101.40	101.55	100.75
Aug	101.20	101.50	0	0
Sep	101.30	101.55	101.55	100.95
Oct	101.35	101.60	0	0
Nov	101.35	101.60	0	0
Dec	101.40	101.65	101.65	101.15
Jan	101.20	101.45	0	0
Feb	101.00	101.25	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
May	61.90	60.75	61.80	61.10
Jul	62.95	61.90	63.15	61.70
Sep	65.20	64.10	65.35	64.90
Dec	68.50	67.50	68.70	67.65
Mar	71.85	70.95	72.10	71.25
May	76.15	75.40	75.75	73.75
Jul	78.50	77.75	0	0
Sep	80.50	79.15	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low	
Jun	20.96	21.00	21.07	20.82
Jul	21.06	21.12	21.17	20.94
Aug	21.09	21.13	21.15	20.96
Sep	21.04	21.07	21.10	20.90
Oct	20.98	20.99	21.02	20.83
Nov	[illegible]	20.91	20.90	20.75
Dec	20.83	20.86	20.86	20.71
Jan	20.75	20.78	20.70	20.64
Feb	20.68	20.71	20.70	20.59
Mar	20.61	20.71	20.58	20.60

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low	
Jun	5752	5832	5820	5720
Jul	5718	5794	5790	5680
Aug	5792	5845	5840	5755
Sep	5885	5935	5940	5870
Oct	5960	6025	6035	5975
Nov	6075	6115	6130	6075
Dec	6155	6195	6225	6165
Jan	6175	6215	6240	6190
Feb	6070	6110	6135	6100
Mar	5850	5890	5930	5900

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
May	871	875	880	857
Jul	917	910	923	903
Sep	957	953	962	948
Dec	1005	1002	1008	993
Mar	1045	1043	1049	1035
May	1072	1070	1080	1065
Jul	1103	1101	0	0
Sep	1130	1128	0	0
Dec	1170	1168	1180	1180

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	9.57	9.58	9.72	9.51
Oct	9.12	9.17	9.18	9.09
Mar	8.97	8.98	9.00	8.94
May	8.92	8.94	8.94	8.91
Jul	8.86	8.90	0	0
Oct	8.88	8.08	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	60.62	59.85	60.94	60.45
Oct	61.08	60.82	61.25	60.40
Dec	61.68	61.27	62.12	60.90
Mar	62.95	62.45	63.25	62.15
May	63.54	62.92	63.34	63.09
Jul	63.85	63.35	64.00	64.00
Oct	63.36	62.85	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	138.50	138.30	138.75	137.80
Jul	129.90	129.15	129.90	128.40
Sep	122.15	121.60	122.30	121.20
Nov	114.80	114.30	114.95	114.20
Jan	114.65	114.05	114.80	114.00
Mar	114.50	113.85	114.60	114.50
May	114.05	113.60	0	0
Jul	114.05	113.60	0	0
Sep	114.05	113.60	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

May 12	May 11	mnth ago	yr ago
1564.7	1615.2	1609.6	1717.8

DOW JONES (Base: Dec. 31 1974 = 100)

	May 11	May 8	mnth ago	yr ago
Spot	117.72	117.67	-	126.10
Futures	118.80	118.87	-	126.41

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
May	599/6	589/4	600/0	593/0
Jul	605/0	593/6	605/4	597/2
Aug	607/6	597/6	608/0	601/4
Sep	614/2	602/0	614/4	607/0
Nov	621/4	609/0	622/0	613/4
Jan	629/4	617/6	630/0	622/4
Mar	638/2	627/0	638/4	632/0
May	644/2	633/4	644/4	639/0
Jul	648/0	639/0	648/0	644/0
Nov	614/2	614/0	620/0	613/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
May	20.56	20.31	20.58	20.35
Jul	20.81	20.54	20.84	20.58
Aug	20.95	20.70	20.97	20.74
Sep	21.14	20.93	21.15	20.98
Oct	21.29	21.08	21.30	21.14
Dec	21.60	21.38	21.62	21.42
Jan	21.71	21.50	21.75	21.60

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
May	181.6	177.9	181.7	179.3
Jul	[illegible]	179.0	[illegible]	180.4
Aug	182.5	179.3	182.7	180.6
Sep	182.9	179.4	183.3	180.8
Oct	200.0	197.3	201.0	198.5
Dec	201.2	198.0	201.7	199.3
Jan	202.0	199.5	202.0	200.0
Mar	201.5	199.0	202.0	201.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
May	254/2	252/6	254/4	252/0
Jul	259/4	258/0	260/0	257/2
Sep	259/4	257/4	260/0	256/6
Dec	260/0	257/0	260/4	258/2
Mar	268/0	265/0	268/0	264/0
May	271/6	269/0	272/2	269/0
Jul	275/6	273/0	276/0	272/4
Dec	260/2	260/0	260/4	258/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
May	379/2	377/4	382/0	378/4
Jul	363/4	365/6	369/0	363/0
Sep	368/2	369/4	372/6	367/0
Dec	376/2	377/2	380/4	374/4
Mar	378/0	376/2	379/4	373/4
May	368/0	366/0	367/4	366/0
Jul	346/0	347/0	349/0	346/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	73.675	74.150	74.500	73.625
Aug	70.475	71.175	71.450	70.450
Oct	70.125	70.525	70.725	70.050
Dec	69.650	70.025	70.225	69.575
Feb	69.125	69.450	69.600	69.000
Apr	70.400	70.425	70.625	70.400
Jun	68.300	68.300	68.400	68.300

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Jun	48.000	48.100	48.300	47.850
Jul	46.325	46.100	46.400	45.900
Aug	43.950	43.875	44.050	43.725
Oct	40.400	40.300	40.500	40.250
Dec	42.650	42.625	42.700	42.550
Feb	43.725	43.750	43.775	43.650
Apr	42.475	42.600	42.600	42.450

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
May	37.250	36.825	37.350	36.600
Jul	36.800	36.275	36.900	36.150
Aug	34.750	34.225	34.900	34.175
Feb	44.100	43.975	44.100	43.850
Mar	43.050	43.000	43.350	0
May	44.100	43.900	44.100	44.000

LONDON STOCK EXCHANGE

Profit-taking triggers market slide

By Steve Thompson

AN INEVITABLE bout of profit-taking emerged yesterday, taking London share prices lower after a prolonged bull run that has seen the Footsie moving to record levels for four consecutive trading sessions.

Yesterday's fall was triggered by more evidence that the recent run of big gains in the equity market would see the emergence of some hefty lines of stock for sale, coupled with concern that the market had run too far,too fast.

There was also the worry, according to traders, that Wall Street, which has been hitting record highs over recent weeks, may be due a sizeable correction.

The market was in good form at the outset, edging higher in response to the latest record achieved by Wall Street. The Footsie opened five points higher at 2,742.8, marginally short of the all-time best, but suddenly began to slide.

The decline was caused by an uninspiring statement issued by Marks & Spencer along with its preliminary figures.

Although not causing any major damage to the M & S share price, the news quickly caused a ripple of unease around the market, with the Footsie quickly on the slide and showing a fall of almost 19 points by mid-morning.

Thereafter, the market managed to hold its lower levels, before coming under renewed pressure towards the close of business when Wall Street began to lose ground. The latest UK economic data on producer prices failed to generate any enthusiasm in the gilts market although sterling improved strongly against the US dollar over the session.

A couple of medium-sized programme trades, one said to have been carried out overnight and the other executed in mid-session also impacted on the market.

By the close, the Footsie had struggled back to end the session 15.4 off at 2,722.4. Yesterday's turnover in the equity market, 592.1m shares, was well short of recent levels but was regarded as a good performance from a market ripe for profit-taking after the recent surge of buying interest.

Stock overhangs from the market's most recent bought deals were said to have been partly responsible for the reluctance of potential buyers to chase prices higher yesterday. ICI, after the Goldman Sachs bought deal, and Pilkington, in the wake of BZW's purchase of the BTR stake, were two examples of this, according to specialists. There were suggestions that a number of large lines of stock – notable Racal Electronics and Bass – had been offered around the market, causing more indigestion.

An agency cross of 3m Britannic Assurance at 895p a share was later confirmed as representing the sale of the shares by Britannic's own pension fund. General Accident kicked off the composite insurance sector's first quarter results season with better than expected figures.

The utilities sector was among the market's busiest areas, with Kleinwort Benson Securities said to have played a big role in the day's activity. This mainly involved unravelling of the Electricity Package and reinvestment in specific electricity stocks.

Account Dealing Dates		
*First Dealings:		
Apr 27	May 11	Jun 1
Option Declarations:		
May 7	May 28	Jun 11
Last Dealings:		
May 8	May 29	Jun 12
Account Day:		
May 18	Jun 8	Jun 22

*New-time dealings may take place from 8.30 am two business days earlier.

Electricity package pressured

ELECTRICITY issues were heavily traded as securities house Kleinwort Benson was said to have carried out a large switch out of the Electricity Package.

Kleinwort was believed to have sold around 9,000 package contracts, equivalent to 9m underlying shares in the regional electricity companies (Recs), and bought into Yorkshire, Southern and Eastern. There has been considerable switching recently ahead of the results season, which begins in earnest with East Midland's full-year figures on June 15, and ahead of the forthcoming break-up of the package in the late summer or early autumn.

The Recs saw two-way business as some investors sold out on worries that the impact of British Coal privatisation talks would spill on to the electricity sector. Yorkshire gained 1½ to 390½p with 4.2m traded, Southern lost 5 to 321p on turnover of 4.8m, and Eastern fell 9 to 278p on 3.5m dealt. The package lost £90 to £3255.

Switching in banks

Clearing banks National Westminster and Barclays took separate paths yesterday after securities house Kleinwort Benson advised clients to move funds from the first to the second. NatWest lost 12 to 353p, while Barclays, in spite of a downgrade of its long-term debt by credit rating agency Moody's Investors Service, put on 5 to 386p.

Mr Norrie Morrison, of Kleinwort's banking team, said NatWest had outperformed the market by 20 per cent since the general election and outrun Barclays by more than 45 per cent since last July. "We think the talk about Barclays' exposure to property is a little over the top, and there is a very significant upside there."

Figures from Marks and Spencer were in line with expectations but, as feared, the level of UK sales proved to be disappointing. To emphasise the point M and S chairman Sir Richard Greenbury said the recession was not yet over and sent shivers through the rest of the retailing sector.

The gloomy UK outlook prompted most analysts to downgrade their forecasts, with cuts from the £775m level to around £755m. The shares firmed a penny to 331p.

In similar vein, Argos also reported sluggish first-half sales at its annual meeting, the shares sliding 6 to 278p.

Insurer General Accident reversed an intraday gain to close a net 9 off at 489p. Better-than-expected first-quarter results, accompanied by a positive trading statement, had prompted an initial rise of 11.

However, the market then concentrated on the net asset value which, at around 470p per share, was disappointing and showed the shares to be slightly expensive. Also, Cazenove was said to have recommended a switch out of GA and into Guardian Royal Exchange, steady at 158p.

Life insurer Britannic saw unusually heavy turnover as its own pension fund halved its 8.8 per cent stake in the company by placing 3m shares in the market. The shares were traded as a number of small agency crosses with institutions at 895p.

The sale was prompted by the 1990 Social Security Act, which came into force in January and demands that investment by a pension fund in its own company is limited to 5 per cent of the fund's assets. Yesterday's placing by company broker UBS Phillips & Drew had been expected and had been suppressing the price of the shares as potential buyers waited to pick up stock at a discount. Britannic rose 5 to 910p.

Analysts said the next company in the sector to be affected is United Friendly, where 19 per cent of the pension fund assets are in United stock. United firmed 3 to 358p.

BP attracted US buying and bucked the general trend after stating that it was selling its 57 per cent stake in BP Canada for C$374m. The sale is something of a drop in the ocean compared to BP's debts but it took the market by surprise and appeared to demonstrate that BP was serious about getting its books straight.

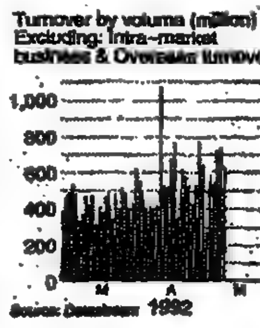
Weekend press comment suggesting Hanson might buy a stake in BP, and also firmer crude oil prices, helped the shares. BP gained 5 to 257p and was actively traded with 16m shares changing hands.

There was talk that one of the market's leading agency brokers had attempted to place 11m shares in Racal Electronics, although no deal was recorded by the end of the day's trading. The shares slipped a penny to 61½p.

FT–A All–Share Index

Equity Shares Traded

Turnover by volume (million) Excluding: Intra-market business & Overseas turnover



Source: Datastream

A recent buy note issued by S.G. Warburg Securities failed to sustain BT, where the fully-paid declined 4 to 347p. Traders said there was some nervousness ahead of BT's fourth-quarter figures, due next week, and that Cazenove, the company's broker, had been an aggressive seller of the shares.

Theme park operator Euro Disney dropped 52 to 1268p on a French press report, vehemently denied by the group, that attendances were well below the level anticipated.

Rolls-Royce declined 5 to 168½p after Nomura weighed in with a 1993 profits downgrade. Leaving the 1992 figure at a low £105m, the securities house reduced the following year's figure by £30m to £170m.

Mr John Lawson at Nomura said: "The scale of the pick-up in civil spares is still disappointing."

News of a $50m order and, at the company's annual meeting, improved demand lifted Simon Engineering 8 to 291p.

A sizeable amount of stock continued to overhang Pilkington following Monday's bought deal between BZW and BTR. Pilkington ended 6 lower at 154p, while BTR fell 8 to 488p.

The hard-hit US hotel industry weighed heavily on Bass, also affected by a 1.5m line of stock reported as being offered by Panmure Gordon. The shares shed 16 to 637p.

United Biscuits slipped 9 to 419p after warning that first-half profits would show an "overall decline". BZW promptly cut its 1992 profits forecast by £9m to £218m.

USM-quoted T.J. Hughes, the discount retailer, made an impressive market debut. The shares closed at 90p, compared with the 75p issue price.

MARKET REPORTERS:
Christopher Price,
Joel Kibazo,
Peter John.

■ Other market statistics, Page 31.

FINANCIAL TIMES STOCK INDICES

[illegible]

GILT EDGED ACTIVITY

[illegible]

TRADING VOLUME IN MAJOR STOCKS

[illegible]

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

STOCK INDEX futures traded in a narrow range for most of the session, with turnover down on recent levels, writes Joel kibazo.

A 2,760 opening level for the June contract on the FT-SE proved to be the session's high point, for selling shortly after the opening caused a retreat, pushing June down to 2,741 by 11am. A further dip to 2,738, the day's low, was recorded shortly after. For the next few hours June traded in a narrow range between 2,741 and 2,750. Traders were concerned by the stock overhang in the underlying equity market, following recent deals in ICI and Pilkington shares.

A brief rally was seen towards the end, but June eventually closed at 2,741, down 23 from the previous finish and around 12 points above its estimated fair value premium to cash of about 8. Turnover, at 5,986, was poor.

The traded options market was dull with turnover of only 26,765 lots. The FT-SE option accounted for a sizeable part of that total, having had 11,310 contracts traded by the close, with the June 2,600 series particularly active.

Business in stock options was very poor. Boots was the most active stock, with 1,137 lots dealt. The July 460 puts were the busiest series.

FT-ACTUARIES SHARE INDICES

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tuesday May 12 1992 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%))	Est. P/E Ratio (Net)	xd adj. 1992 to date	Mon May 11 Index No.	Fri May 8 Index No.	Thu May 7 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (179)	923.23	-0.6	6.63	5.04	19.66	14.90	928.64	924.10	909.20	830.52
2	Building Materials (22)	1113.17	-0.7	5.40	5.32	26.21	19.03	1121.52	1109.74	1096.90	1084.77
3	Contracting, Construction (28)	1065.29	-0.4	5.44	5.67	20.76	23.82	1069.64	1068.91	1042.88	1314.00
4	Electricals (8)	2649.02	......	6.98	5.57	18.61	68.62	2648.63	2614.71	2600.08	2347.83
5	Electronics (29)	2069.20	......	8.67	4.10	14.62	5.05	2069.60	2055.20	2030.93	1748.98
6	Engineering-Aerospace (7)	396.85	-0.8	8.84	6.54	14.35	11.16	399.92	401.23	393.46	433.21
7	Engineering-General (44)	558.89	......	7.39	4.22	16.78	7.82	558.75	554.88	546.58	440.71
8	Metals and Metal Forming (8)	373.88	-0.3	0.00	9.27	–	2.03	375.08	374.78	372.71	434.07
9	Motors (14)	391.61	-0.1	6.82	6.00	19.38	9.96	392.05	394.37	383.10	322.06
10	Other Industrial Materials (19)	1884.10	-1.2	6.60	4.40	18.25	33.79	1906.65	1898.48	1862.90	1493.02
21	CONSUMER GROUP (188)	1750.67	-0.6	6.91	3.25	17.74	16.67	1761.38	1752.82	1735.92	1448.14
22	Brewers and Distillers (24)	2253.42	-1.1	7.28	3.23	16.46	16.84	2278.85	2270.60	2243.43	1796.73
25	Food Manufacturing (17)	1322.56	-0.4	8.15	3.97	15.19	20.33	1327.80	1303.66	1289.58	1155.72
26	Food Retailing (18)	2886.67	-0.8	7.98	3.00	16.29	20.23	2910.90	2859.48	2830.41	2797.20
27	Health and Household (24)	4258.25	-0.2	6.48	2.49	17.59	35.84	4267.34	4271.51	4251.55	3225.79
29	Hotels and Leisure (20)	1437.37	-0.7	5.94	4.75	21.74	23.50	1447.56	1443.52	1431.75	1320.63
30	Media (25)	1711.17	-0.6	5.62	3.21	22.16	18.07	1721.09	1702.44	1676.72	1435.60
31	Packaging, Paper & Printing (17)	872.27	-0.1	5.90	3.79	20.19	11.55	873.53	866.98	869.61	662.83
34	Stores (33)	1095.10	-0.6	6.86	3.34	19.30	6.71	1101.50	1107.65	1093.87	916.55
35	Textiles (10)	740.87	-1.9	6.42	4.20	19.70	10.52	754.92	756.70	752.91	540.61
40	OTHER GROUPS (116)	1348.90	-0.8	8.95	4.76	14.05	14.24	1359.32	1353.11	1337.72	1213.12
41	Business Services (17)	1495.00	-1.1	6.53	4.23	19.31	14.66	1511.16	1505.43	1468.39	1209.98
42	Chemicals (22)	1613.15	-0.7	6.51	4.51	18.79	24.37	1625.28	1629.99	1613.26	1302.68
43	Conglomerates (11)	1498.25	-0.8	9.42	6.34	12.99	11.37	1509.94	1481.06	1463.59	1508.49
44	Transport (14)	2760.68	-0.4	4.57	4.11	29.09	30.47	2772.88	2736.10	2694.91	2191.14
45	Electricity (16)	1302.13	-1.3	13.49	5.00	9.67	17.21	1319.85	1318.21	1310.61	1191.06
46	Telephone Networks (4)	1452.53	-0.7	10.79	4.32	12.10	16.02	1462.32	1465.92	1441.99	1448.99
47	Water (10)	2895.69	-1.3	14.73	5.49	7.48	0.00	2934.28	2913.99	2906.61	2444.04
48	Miscellaneous (22)	2162.01	-0.3	5.46	4.56	24.20	21.83	2167.85	2151.72	2142.06	1861.97
49	INDUSTRIAL GROUP (483)	1418.64	-0.7	7.50	4.07	16.68	15.74	1427.97	1421.15	1404.94	1234.55
51	Oil & Gas (17)	2100.51	+0.4	7.23	6.77	18.18	63.63	2091.59	2085.67	2114.05	2340.25
59	500 SHARE INDEX (500)	1485.81	-0.5	7.47	4.33	16.81	19.30	1493.99	1487.15	1473.82	1319.77
61	FINANCIAL GROUP (87)	790.36	-0.3	–	5.74	–	17.10	792.96	784.51	773.40	796.81
62	Banks (9)	998.56	-0.4	4.83	5.47	32.73	24.58	1002.66	994.23	971.07	888.34
65	Insurance (Life) (6)	1573.52	-0.5	–	5.66	–	44.26	1581.60	1563.18	1534.72	1460.70
66	Insurance (Composite) (7)	556.91	-0.3	–	6.25	–	13.46	558.36	552.51	554.13	662.06
67	Insurance (Brokers) (10)	1007.44	+1.5	7.67	6.65	17.22	21.48	992.18	974.98	972.60	1088.30
68	Merchant Banks (7)	512.90	-0.6	–	4.04	–	4.25	515.99	510.60	507.89	422.83
69	Property (33)	726.94	-0.5	7.37	6.29	18.88	6.75	730.62	718.65	714.82	978.99
70	Other Financial (15)	265.58	-0.3	6.54	6.51	20.95	3.12	266.49	264.00	261.90	286.80
71	Investment Trusts (70)	1267.94	-0.4	–	3.53	–	15.07	1273.08	1268.68	1260.64	1210.63
99	ALL-SHARE INDEX (657)	1319.48	-0.5	–	4.48	–	18.45	1326.36	1319.37	1306.82	1193.31

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	May 11	May 8	May 7	May 6	May 5	Year ago
FT-SE 100 SHARE INDEX	2722.4	-15.4	2742.8	2718.9	2737.8	2725.7	2701.9	2698.7	2662.2	2463.7

FIXED INTEREST

	PRICE INDICES	Tue May 12	Day's change %	Mon May 11	Accrued interest	xd adj. 1992 to date
	British Government					
1	Up to 5 years (27)	122.53	+0.03	122.49	1.91	4.62
2	5-15 years (25)	138.18	-0.04	138.24	1.98	5.45
3	Over 15 years (9)	149.88	-0.03	149.92	2.90	3.39
4	Irredeemables (6)	163.51	-0.14	163.75	0.46	6.11
5	All stocks (67)	135.81	-0.02	135.84	2.08	5.04
	Index-Linked					
6	Up to 5 years (2)	171.01	....	171.01	0.44	1.83
7	Over 5 years (9)	149.27	+0.08	149.14	0.89	1.64
8	All stocks (11)	151.10	+0.07	151.00	0.82	1.65
9	Debs & Loans (62)	119.55	+0.03	119.52	1.96	4.67

	AVERAGE GROSS REDEMPTION YIELDS		Tue May 12	Mon May 11	Year ago (approx.)
	British Government				
1	Low	5 years	8.25	8.22	9.23
2	Coupons	15 years	9.04	9.04	9.83
3	(0%-7¾%)	20 years	9.05	9.04	9.96
4	Medium	5 years	9.22	9.22	10.38
5	Coupons	15 years	9.08	9.07	10.25
6	(8%-10¾%)	20 years	9.06	9.05	10.17
7	High	5 years	9.45	9.44	10.55
8	Coupons	15 years	9.21	9.19	10.39
9	(11%-)	20 years	9.16	9.15	10.27
10	Irredeemables		9.26	9.24	10.14
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	3.81	3.80	3.77
12	Inflation rate 5%	Over 5 yrs.	4.40	4.40	4.13
13	Inflation rate 10%	Up to 5 yrs.	3.15	3.14	2.96
14	Inflation rate 10%	Over 5 yrs.	4.22	4.23	3.96
15	Debs &	5 years	10.58	10.58	11.88
16	Loans	15 years	10.42	10.42	11.63
17		25 years	10.32	10.32	11.42

[illegible]

NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (219).

BRITISH FUNDS (2) Tr 10pc '94, Tr 8pc '94, BREWERS (11) Bass, Burn Stewart, Devenish, Do 4½pc Pf, Greenalls, Do 5.65p Pf, Invergordon, Mansfield, Wolv & Dudley, Young A, Do N/V, BLDG MATLS (8) Gibbs & Dandy A, Hepworth, Manders, Newman-Tonks, Ramus, Russell (A), Steetley, Wickes, BUSINESS SERVS (10) Capita, Davis Serv, Hutchison Whmp, MITIE, Reliance Sec., Rentokil, Securiguard, Sherwood, Sketchley, Warner Howard, CHEMS (8) Brent, Canning, Doeflex, Evode 7p Pf, Halstead, CONGLOMERATES (7) [illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

BRITISH FUNDS - Cont.

[illegible]

OTHER FIXED INTEREST

[illegible]

AMERICANS

Notes	Price £	+ or -	1992 high	low	Mkt Cap£m	Yld Gr's
Abbott Labs	37⅛xd	+⅛	38⅞	34	15,789	1.8
Allegheny & W	270p	+12	335p	228p	140.3	6.3
Amdahl	987p	+12	1159p	815p	1,100	0.6
Amer Cyanamid	33⅝	-⅛	37	32¼	3,068	2.8
Amer Express	12⅝xd	+⅛	13⅞	10⅛	5,961	4.5
Amer T & T	23⅞xd	-⅛	24⅞	20¼	31,638	3.1
Ameritech	35	—	38⅞	32½	18,324	5.7
BankAmerica	26⅝xd	+¼	28⅝	19⅛	9,132	2.8
Bankers NY	33⅞xd	+¼	37¼	28⅞	2,776	8.1
Bell Atlantic	24	-¼	26¾	23⅛	18,295	6.1
BellSouth	27⅛	+⅛	29⅛	25	19,201	5.7
Bethlehem Steel	9⅛xd	-⅛	9⅝	7	634.9	–
Bowater	1274pxd	-18	1578p	1078p	457.6	5.3
CPC	23⅞	+⅞	26⅝	22¼	3,548	2.9
California Engy	715p	—	833p	646p	138.2	–
Campbell Soup	19⅞	—	23⅞	18⅞	4,870	2.3
Chase Manhattan	16⅞xd	—	16⅞	9⅛	2,311	4.1
Chrysler	10⅝xd	-⅛	11⅛	6¼	3,032	3.3
Citicorp	10⅞xd	+⅛	11	5⅝	3,744	–
Colgate-Palm	28⅞xd	+⅛	28⅞	25¼	4,485	2.1
Cont'l Bank	921p	-15	1036p	499p	930.7	3.7
Dana	23½xd	-⅛	24½	14⅞	986.1	3.8
Data General	506p	-4	1084p	487p	138.8	–
Dial	18⅞xd	-⅛	24⅛	18⅞	780.3	3.2
Dun & Brad	29⅞	-⅛	33½	28⅞	5,197	4.4
Eaton	44¼	+½	46½	32½	1,567	2.8
Echlin	9¾xd	—	11	7⅞	544.6	4.0
FPL	19⅝xd	-⅛	20	18⅛	3,326	6.9
Fluor	24½xd	-⅛	27	21	1,986	0.9
Ford Motor	24⅝xd	-½	25¾	15	11,937	2.3
Gen Elect	44⅛xd	+⅞	46¼	40⅞	38,129	2.7
General Host	464p	-11	556p	360p	–	4.3
Gillette	27⅞xd	—	28⅞	26⅛	6,972	1.5
Hasbro	14½	-⅛	16	12⅝	1,249	0.5
Honeywell	49⅞xd	-⅛	49	34⅛	2,841	2.3
Houston Inds	24⅛	-⅛	25	23	3,124	6.9
IBM	52⅛xd	+¼	54½	46¾	29,822	5.2
Ingersoll-Rand	35⅛xd	+⅞	35⅞	28⅞	1,864	2.1
Lockheed	25⅞	+⅛	28⅞	22⅛	1,582	4.7
Lowe's	2127p	+5	2478p	1631p	774.3	1.5
Merrill Lynch	25⅞xd	-½	39⅞	26½	2,767	2.1
Morgan (JP)	32¼xd	+⅛	37½	29⅞	6,138	3.8
Morris (Philip)	43¾xd	+⅞	45⅞	41⅛	40,243	2.7
NYNEX	42½	-⅛	44⅝	39⅝	8,620	6.1
Pac Agric	42p	—	57p	28p	–	–
Pall	14⅛	-⅛	17⅞	10⅞	1,238	1.4
Pennzoil	27xd	+½	39¾	25¼	1,892	6.3
Quaker Oats	29⅝xd	—	46⅞	29⅞	2,213	3.3
Rockwell	13¼xd	—	15⅞	13⅞	3,867	3.8
Rep NY	23⅛	+⅛	28⅞	22⅞	1,203	2.4
Sears, Roebuck	24⅞xd	+⅞	29	19⅞	6,322	4.7
Southwestern Bell	34½	-⅛	35⅞	32⅛	18,855	4.8
Sun Co	15⅞xd	+⅛	18⅞	16½	1,664	6.5
Tenneco	24⅝xd	-⅛	25⅞	16½	3,869	3.7
Texaco	34½xd	—	35¼	30⅞	8,919	8.2
Time Warner	62xd	+⅛	62⅛	46⅛	5,743	0.9
Unilab	463p	—	587p	440p	448.7	–
Utd Tech	29⅞xd	+⅞	31⅛	27	3,941	3.4
Unitech	84p	—	120p	65p	–	–
URS Intl, 1c	0⅛p	—	1⅛p	0⅛p	7.38	–
US West	19¼	-¼	21⅞	18⅞	8,098	6.0
Varity	691p	-7	856p	632p	287.4	–
Waste Manage	21xd	-⅛	23	20⅞	10,368	1.2
Whirlpool	2394pxd	-33	2795p	2021p	1,648	2.7
Woolworth	18⅛	—	18⅛	14⅛	2,136	3.7

CANADIANS

Notes	Price £	+ or -	1992 high	low	Mkt Cap£m	Yld Gr's
Abbot Energy	3p	—	3p	1¾p	–	–
Amer Barrick	1366p	-8	1642p	1208p	1,696	0.3
Bk Montreal	20½	+½	23¼	20	2,477	5.5
Bk Nova Scot	955p	+51	1176p	902p	1,984	4.8
BC Gas	735p	+5	870p	725p	–	4.4
BCE	20⅞	+⅛	24½	20¼	6,481	7.4
Bracan	776p	+33	867p	714p	938.1	7.2
Breakwater	24p	-1	33p	6p	18.3	22.5
Can Imp Bk	1328p	+51	1616p	1250p	2,448	5.4

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING - AEROSPACE

ENGINEERING - GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

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INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIAL MATERIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion

FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often well above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✠) - 0001 to 1100 hours; (◆) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071 - 379 - 0444.

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FT MANAGED FUNDS SERVICE

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	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh 031-226 3271						
American ▼	5	281.5	281.5	299.4	+0.6	0.75
(Accum Units) ▼	5	331.3	331.3	352.4	+0.7	0.75
British	5	877.3	893.3	945.1	-0.3	5.28
(Accum Units)	5	1471.2	1498.1	1584.9	-0.9	5.28
European	5	340.2	340.2	360.5	+0.5	1.43
(Accum Units)	5	368.8	368.8	390.8	+0.6	1.43
Japan	5	95.22	95.22	101.3	-0.1	-
(Accum Units)	5	95.98	95.98	102.1	-0.1	-
New Pacific	5	204.7	204.7	219.5	+0.1	1.60
(Accum Units)	5	210.2	210.2	225.4	+0.1	1.60
PEP May 6	5	160.4	162.2	171.6	...	3.57
Mngd Equity	5	132.6	134.1	141.6	-0.3	2.71
Mngd Equity Acc	5	140.7	142.3	150.6	-0.3	2.71
Mngd Cash	0	96.34	96.34	96.34	...	9.97
(Accum Units)	0	120.6	120.6	120.6	...	9.97
Majority Stkg	1	100.24	100.24	101.24	-0.02	9.83
Majority Stkg Acc	1	011.17	111.17	112.28	-0.03	9.83
Stockwood Intl Inv Mngrs Ltd (1200)F						
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries: 0277 227300 Dealing 0277 261010						
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
St Mark's Court, Horsham 0403 232323						
Equity	6	654.5	654.5	700.0	-3.7	2.69
North America	6	83.49	83.49	89.29	-0.14	0.46
Far East	6	87.36	87.36	93.40	-0.10	0.76
W'wide Bond	6	46.90	46.90	49.89	-0.08	6.33
European	6	69.46	69.46	74.29	-0.13	1.50
Equity Income	6	73.21	73.21	78.30	-0.49	5.12
Portfolio	6	60.30	60.30	64.49	-0.18	2.34
Broker Trusts						
Worldwide Growth	6	47.00	47.00	50.00	...	2.29
Sun Life of Canada Unit Mgrs Ltd (1000)H						
Basing View, Basingstoke, Hants 0800 525725						
American Growth	6	26.78	26.78	28.65	+0.01	0.85
Managed Assets	6	107.17	107.75	115.25	-0.47	3.27
UK Income	6	33.75	34.09	36.47	-0.22	4.32
UK Growth	6	33.88	34.17	36.56	-0.16	3.47
Worldwide Growth	6	24.26	24.26	25.95	-0.07	1.12
Sun Life Trust Mngmt Ltd (1200)H						
101, Cannon St, London EC4N 5AD						
Admin & Enq: 071-606 4044 Dealing: 071-606 6010						
Master Portfolio	5¼	34.81	34.83	37.23	-0.02	2.59
Amer Growth Acc	5¼	44.14	44.14	47.16	-0.10	0.16
Cap Protector Acc	3¼	38.12	38.63	41.32	-0.38	4.06

	Bid Price	Offer Price	+ or -	Yield Gr's
M & G Securities Ltd				
Charibond May 11	104.52		+0.1	10.38
(Accum Units)	649.20		+0.6	10.32
NARCIF May 5	41.25		...	9.3
Morgan Grenfell Investment Funds Ltd				
Exempt Funds				
UK Equity † May 12	141.5	151.6	+4.0	1.78
UK Small Co † May 12	561.1	613.9	+24.4	3.26
Fixed Interest † May 12	109.9	115.7	+0.7	8.64
US Small Co May 12	161.2	172.5	-0.1	0.00
Managed May 12	116.0	124.0	+2.4	3.44
Intl Bond May 12	119.9	126.5	+1.3	10.25
Japan May 12	60.90	64.95	+2.01	4.52
European May 12	93.01	99.94	+0.83	1.78
Nth American May 12	116.5	125.3	-0.7	1.27
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
Amer Exmt May 12	53.64	57.37	...	1.47
Euro Exmt May 12	54.55	57.28	+0.29	2.29
F'lnd Int Ex May 6	48.63	49.84	...	8.72
Japan Exmt May 12	36.90	38.50	-0.26	0.83
Managed Ex May 7	47.50	49.41	...	4.13
SE Asia Exmt May 12	81.10	85.16	-0.84	2.51
Sm Cos Exmt May 6	37.44	39.32	...	3.26
UK Eqty Ex May 6	46.05	48.36	...	3.46
Phillips & Drew Fund Management Ltd				
Small Co's May 7	712.80	750.15	...	4.27
Do Accum	832.15	886.26	...	4.27
Int Exmt May 7	190.20	194.28	...	1.90
UK Index May 7	1244.97	1261.98	...	4.62
Do Accum	[illegible]	1409.08	...	4.62
Convertible May 11	100.32	103.94	...	7.81
Worldex UK Index May 5	747.73	750.26	...	2.21
Do Accum	742.25	750.86	...	2.21
Japan Index May 5	424.13	426.69	...	0.89
Do Accum	430.83	437.42	...	0.89
USA Index May 5	1064.29	1071.38	...	3.00
Do Accum	1109.38	1116.77	...	3.00
European UK Index May 5	915.7	929.73	...	3.17
Do Accum	952.20	966.88	...	3.17
Pacific ex Jap Index May 5	1101.97	1134.62	...	3.58
Do Accum	1174.5	1206.01	...	3.58
Managed Exempt May 7	113.63	115.62	...	5.16
American Exempt May 7	139.55	141.42	...	3.06
European Exempt May 7	124.71	127.16	...	3.17
Japan Exempt Apr 30	92.97	95.00	...	0.59
Pacific Basin May 7	164.75	171.14	...	2.45

INSURANCES

OTHER UK UNIT TRUSTS

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	Bid Price	Offer Price	+ or -	Yield Gross
Norwich Union Life Insurance Soc.–Contd.				
Pensionmaster & Unit-Linked Plus*				
Mixed Fund	465 3	499 8	+3.3	–
Ordinary Share Fund	723 8	761 9	+5 9	–
International Fund	169 3	178.2	+1.6	–
Property Fund	259 6	273 3	+0 2	–
Fixed Interest Fund	407 3	428 7	+0.5	–
Index-Linked Sec Fund	192 6	202 7	+2.1	–
Deposit Fund	281 6	296.4	+0.3	–
Norwich Units Apr 22	£116.59			
Prices as at May 7				
Jersey Investment Plus				
With Profits Fund	124 44	130 99	+0.04	–
Intl Equity Fund	93 92	98 86	-0 23	–
Intl Bond Fund	118.32	124.55	-0.31	–
Norwich Union Pensions Management Ltd				
Surrey Street, Norwich NR1 3NG 0603 683335				
Group Pooled Pensions				
Balanced Managed Fd	339 29	344 91	+1 44	–
Growth Managed Fd	113 70	115 70	+0.58	–
Sentinel Managed Fd	109 92	111.29	+0 43	–
Prices as at May 11				
Pearl Assurance (Unit Funds) Ltd				
Lynch Wood, Peterborough PE2 6FY 0733 470470				
Property Dist (Gross)	134 4	141.4	(z)	–
Property Acc (Gross)	256.1	269 6	(z)	–
Equity (Gross)	937 9	987.3	(z)	–
Managed (Gross)	644 7	678 6	(z)	–
Property Acc (Net)	122 3	128 8	(z)	–
Equity (Net)	216 1	227 5	(z)	–
Managed (Net)	197 5	207 9	(z)	–
International (Net)	169 4	179.3	(z)	–
Gilt & Fixed Interest	139 4	146 8	(z)	–
Money Fund	138 6	145 9	(z)	–
Mixed Fund (Cap)	122 7	129 2	..	–
Mixed Fund (Acc)	126.5	133 2		–
Adventurous Managed	96 4	101 5	.	–
Cautious Managed	95 2	100.3	.	–
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	703 8	740 9	(z)	–
Ret Man (Series 2)	238.7	251 3	(z)	–
Ret Cash	194 6	204 9	(z)	–
Pens Mixed Fd (Cap)	137 3	144 6	.	–
Pens Mixed Fd (Acc)	141 6	149 1	.	–
Pens Stlg Fd (Cap)	103 1	108 6	.	–
Pens Stlg Fd (Acc)	106.3	111 9	.	–
Pegasus Assurance Ltd				
Broad Quay, Bristol BS1 4DJ 0272 230271				

J. D. Ward Financial Services Ltd
9 Kingsway, London, WC2 B6XF. 071-836 4321

	Bid Price	Offer Price	+ or -	Yield Gross
J D. Ward Mixed Bond	194 5	210 3	+1.0	–
J D. Ward Mixed Pens	124 0	133 8	+0 6	–
Albany Life Acc.	198 2	208 6		–
Albany Pens Acc.	256 8	270 2		–
M&G Tripos Pen Acc	191 6	201.3	+0 4	–

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

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ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar slips on trade comments

THE DOLLAR suffered significant losses against the Japanese yen and other currencies in the foreign exchange markets yesterday after Mr David Mulford, the US Treasury undersecretary for international affairs, expressed concern about Japan's rising trade surplus, *writes James Blitz.*

The move, described as the biggest change in yen/dollar trading for three months, came after Mr Mulford had said the US was "very, very concerned" that Japan's trade surplus with the United States would grow soon as the US economy recovers. He told a Senate Banking subcommittee that the US was pressing Japan to take action in the form of a supplementary budget.

There was furious yen buying immediately after the statement, as traders anticipated that the Group of Seven leading industrial countries would be prepared to intervene in the currencies markets to keep the yen high. The dollar quickly fell through what was seen as the important support level of Y131.70 to finish at Y130.45 in London. In New York it closed steadier at Y130.65.

A forex analyst said yesterday: "People have been bullish about the dollar, but Mulford's comments about the trade surplus have made people think again." Another felt that the market was over-reacting, bearing in mind that there has been little real intervention to keep the yen high since the idea was first mooted at the G7's Garden City summit in January.

Either way, traders in Europe and North America were expecting the yen to strengthen substantially after Tokyo's opening, perhaps reaching Y128.00 to the dollar.

Mr Mulford's comments, combined with speculation about an imminent cut in US interest rates, weakened the dollar against other currencies. It closed at DM1.6215, down nearly two pfennigs on the day. It also lost ground to sterling, which closed at $1.8125, up nearly two cents from its previous close. The dollar finished at DM1.6241 in New York and the pound at $1.8118.

In contrast to the dollar, the D-Mark was well supported by comments yesterday from a senior official. The president of the State Central Bank of Bavaria was reported as saying that interest rates would not be reduced before the end of the year.

Analysts said this was the first time a Bundesbank official had produced a definite comment on the outlook for rates. The statement helped the D-Mark against sterling, which ended at DM2.9400 in London, down ¼ pfennig.

But the German unit lost further ground to the French franc, which has surged following the appointment of Mr Pierre Bérégovoy as prime minister, and the easing of credit conditions last week. It was at FFr3.3565 to the D-Mark by the close of European trading, from a previous FFr3.3626.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu May 12	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	178.735	170.991	-4.33	5.90	71
Spanish Peseta	133.631	128.343	-3.96	5.48	60
Belgian Franc	42.4032	42.3223	-0.19	1.50	16
Dutch Guilder	2.31643	2.31437	-0.09	1.40	9
D-Mark	2.05586	2.05600	0.01	1.30	6
French Franc	6.89509	6.90415	0.13	1.18	-2
Irish Punt	0.767417	0.769439	0.26	1.04	-7
Sterling	0.696904	0.699141	0.32	0.98	[illegible]
Italian Lira	1538.24	1547.76	0.62	0.69	-26
Danish Krone	7.84195	7.94456	1.31	0.00	[illegible]

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

May 12	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8010 - 1.8130	1.8120 - 1.8130	0.99-0.97cpm	6.49	2.77-2.74pm	6.08
Canada	2.1680 - 2.1856	2.1840 - 2.1850	0.70-0.64cpm	3.74	1.96-1.89pm	3.52
Netherlands	3.3025 - 3.3150	3.3025 - 3.3125	¼-parcpm	0.45	⅜-⅛pm	0.30
Belgium	60.35 - 60.70	60.60 - 60.70	5-parcpm	0.49	10-4pm	0.46
Denmark	11.3450 - 11.4050	11.3950 - 11.4050	⅛-¼orepm	0.59	¼-1dis	-0.31
Ireland	1.0990 - 1.1050	1.1040 - 1.1050	0.02dis-0.01pm	-0.05	0.06-parpm	0.11
Germany	2.9375 - 2.9450	2.9375 - 2.9425	¼-parpfpm	0.26	¼-parpm	0.17
Portugal	244.00 - 245.15	244.10 - 245.10	116-136cdis	-6.18	228-266dis	-4.04
Spain	183.25 - 183.90	183.25 - 183.55	35-42cdis	-2.52	102-113dis	-2.34
Italy	2210.00 - 2217.75	2211.25 - 2212.25	3-5liredis	-2.17	11-13dis	-2.17
Norway	11.4525 - 11.5250	11.5125 - 11.5225	⅛-⅝oredis	-0.52	par-1¼dis	-0.22
France	9.8550 - 9.8950	9.8600 - 9.8700	⅜-¼cpm	0.30	¼-⅛pm	0.10
Sweden	10.5650 - 10.6075	10.5925 - 10.6025	⅞-1⅛oredis	-1.27	3⅛-4⅞dis	-1.51
Japan	236.00 - 239.00	236.00 - 237.00	1¼-1ypm	5.71	3¼-3pm	5.29
Austria	20.65 - 20.74	20.67 - 20.70	1¼-⅛gropm	0.4	3-½pm	0.34
Switzerland	2.7200 - 2.7300	2.7200 - 2.7300	¼-⅛cpm	0.83	⅞-⅝pm	1.01
Ecu	1.4265 - 1.4315	1.4290 - 1.4300	par-0.05cdis	-0.21	0.02-0.10dis	-0.17

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.26-5.21pm. 12 Month 8.96-8.86pm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

May 12	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.8010 - 1.8130	1.8120 - 1.8130	0.99-0.97cpm	6.49	2.77-2.74pm	6.08
Ireland†	1.6365 - 1.6455	1.6440 - 1.6450	0.91-0.88cpm	6.53	2.56-2.50pm	6.15
Canada	1.2030 - 1.2080	1.2065 - 1.2075	0.27-0.29cdis	-2.78	0.77-0.80dis	-2.60
Netherlands	[illegible]	1.8250 - 1.8260	0.93-0.96cdis	-6.21	2.66-2.71dis	[illegible]
Belgium	[illegible]	[illegible]	16.00-18.00cdis	-6.10	46.00-49.00dis	[illegible]
Denmark	[illegible]	[illegible]	3.30-3.60oredis	-6.98	9.60-10.20dis	-6.30
Germany	1.6210 - 1.6335	[illegible]	0.86-0.87pfdis	-6.40	2.46-2.49dis	-6.09
Portugal	135.40 - 136.75	135.45 - 135.55	141-149cdis	-12.84	350-365dis	[illegible]

EXCHANGE CROSS RATES

May 12	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta.	Ecu
£	1	1.812	2.940	236.5	9.865	2.725	3.307	2212	2.184	60.65	183.4	1.429
$	0.552	1	1.623	130.5	5.444	1.504	1.825	1221	1.205	33.47	101.2	0.789
DM	0.340	0.616	1	80.44	3.355	0.927	1.125	752.4	0.743	20.63	62.38	0.486
YEN	4.228	7.662	12.43	1000.	41.71	11.52	13.98	9353	9.235	256.4	775.5	6.042
F Fr.	1.014	1.837	2.980	239.7	10	2.762	3.352	2242	2.214	61.48	185.9	1.449
S Fr.	0.367	0.665	1.079	86.79	3.620	1	1.214	811.7	0.801	22.26	67.30	0.524
N Fl.	0.302	0.548	0.889	71.51	2.983	0.824	1	668.9	0.660	18.34	55.46	0.432
Lira	0.452	0.819	1.329	106.9	4.460	1.232	1.495	1000.	0.987	27.42	82.91	0.646
C $	0.458	0.830	1.346	108.3	4.517	1.248	1.514	1013	1	27.77	83.97	0.654
B Fr.	1.649	2.988	4.847	389.9	16.27	4.493	5.453	3647	3.601	100.	302.4	2.356
Pta	0.545	0.988	1.603	129.0	5.379	1.486	1.803	1206	1.191	33.07	100.	0.779
Ecu	0.700	1.268	2.057	165.5	6.903	1.907	2.314	1548	1.528	42.44	128.3	1.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

OTHER CURRENCIES

May 12	£	$
Brazil	4554.35 - 4557.25	2524.60 - 2524.80
Finland	7.9005 - 7.9140	4.4225 - 4.4255
Greece	343.600 - 349.150	190.890 - 193.050
Hong Kong	13.9635 - 13.9765	7.7435 - 7.7455
Iran	2580.00*	1440.00*
Korea(Sth)	1395.35 - 1417.85	778.70 - 780.10
Kuwait	0.52650 - 0.52750	0.29430 - 0.29460
Luxembourg	60.60 - 60.70	33.40 - 33.50
Malaysia	4.5390 - 4.5585	2.5175 - 2.5195
Mexico	5448.10 - 5460.15	[illegible]
N Zealand	3.3915 - 3.3955	1.8795 - 1.8815
Saudi Ar.	6.7120 - 6.7880	3.7495 - 3.7505
Singapore	2.9640 - 2.9710	1.6440 - 1.6460
S Af (Cm)	5.1595 - 5.1715	[illegible]
S Af (Fn)	6.2225 - 6.3320	[illegible]
Taiwan	45.10 - 45.30	25.00 - 25.10
U.A.E.	6.5720 - 6.6490	3.6715 - 3.6735

*Floating rate. Iran Official rate £118.50 $66.30

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.8125	1.8027	1.7850	1.7602	1.7234

MONEY MARKETS

Paper held back

MONDAY'S lingering hopes about an imminent base rate cut were extinguished yesterday, as traders in the sterling money markets hardened to the view that 10 per cent base rates are here for some time to come.

In spite of yesterday's low rise in the April producer price index, the market is convinced that the UK authorities are unlikely to respond by bringing rates down now. "For all the hype about low interest rates, the market's perception is that we are hard up against Germany," said one trader.

A few market participants may be hopeful. The unwillingness of discount houses in recent days to offer paper to the Bank of England has suggested that market players think a cut could come soon. On Monday, there was a shortfall of £270m in paper offered to meet the shortage, and that was repeated again yesterday to the tune of around £100m.

"Historically, when interest rates come down, people do not offer paper because they hope it might happen again," said one trader yesterday. But other market players read little into this, believing that it is due to technical factors, such as a number of banks being long on money.

In the interbank market, period rates continued to form a virtually flat curve: everything from 1-month to 5-month money registered a rate of 10⅛ per cent yesterday. 6-month and 9-month money ended the day a fraction lower at 10¹⁄₁₆ per cent.

In the futures market, the June short sterling contract ended the day trading at 89.93, a figure which assumes that base rates in June will be 10.07 per cent.

In the discount market, the Bank of England forecast a shortage in the morning of £750m. In early operations, the Bank purchased bills totalling £129m, of which £50m were Band-1 bank bills at 9⅞ per cent, £48m were Band-2 bank bills at 9⅞ per cent and £31m were for resale to the market on June 1 at an interest rate of 9¹⁵⁄₁₆ per cent.

The forecast was then revised to a shortage of about £800m. In further operations, the Bank bought £99m of Band-1 bank bills at 9⅞ per cent and £117m for resale to the market on June 1 at an interest rate of 9¹⁵⁄₁₆ per cent.

In the afternoon, the Bank purchased £327m of Band-1 bank bills at 9⅞ per cent. The Bank provided late assistance of around £170m.

UK clearing bank base lending rate 10 per cent from May 5, 1992

FT LONDON INTERBANK FIXING

(11.00 a.m. May 12) 3 months US dollars		6 months US Dollars	
bid 3¾	offer 3⅞	bid 3¹³⁄₁₆	offer 4¹⁄₁₆

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

4pm					
Prime rate	6½	One month	3.50	Three year	5.78
Broker loan rate	6	Two month	3.62	Five year	6.65
Fed funds	3⅞	Three month	3.71	Seven year	7.02
Fed funds at intervention	-	Six month	3.85	10-year	7.36
		One year	4.14	30-year	7.87
		Two year	5.17		

May 12	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	9.65-9.75	9.70-9.80	9.70-9.80	9.70-9.80	9.70-9.80	9.75
Paris	9⅞-10	9⅞-9⅞	9⅞-10	9⅞-10	9⅞-10	9.60
Zurich	7⅞-8⅛	8⅞-9⅛	-	8⅞-8⅞	-	-
Amsterdam	9.31-9.38	9.47-9.54	-	9.48-9.55	-	-
Tokyo	4⅞-4⅞	4⅞-4⅞	-	4⅞-4⅞	-	-
Milan	12⅛-12⅛	12⅛-12⅛	-	12⅛-12⅛	-	-
Brussels	9⅞-9⅞	9⅞-9⅞	-	9⅞-9⅞	-	-
Dublin	10⅛-10⅜	10⅛-10⅜	10⅛-10⅜	10⅛-10⅜	10⅛-10⅜	-

LONDON MONEY RATES

May 12	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	10⅛	10⅛	10⅛	10⅛	10⅛	10⅛
Interbank Bid	9⅞	10	10	10	9⅞	9⅞
Sterling CDs	-	-	10⅛	10⅛	10	9⅞
Local Authority Deps.	9⅞	10⅛	10⅛	10⅛	10⅛	10
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	10⅛	10	-	-	-	-
Company Deposits	-	-	10⅛	10⅛	10⅛	10⅛
Finance House Deposits	-	-	10⅛	10⅛	10	9⅞
Treasury Bills (Buy)	-	-	9⅞	9⅞	9⅞	-
Bank Bills (Buy)	-	-	9⅞	9⅞	9⅞	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	3.72	3.78	3.90	4.35
SDR Linked Dep. Offer	-	-	6⅛	6⅛	6⅛	6⅛
SDR Linked Dep. Bid	-	-	6⅛	6⅛	6⅛	6⅛
ECU Linked Dep. Offer	-	-	10⅛	10⅛	10⅛	10⅛
ECU Linked Dep. Bid	-	-	10⅛	10⅛	10⅛	10

Treasury Bills (sell): one-month 9¹⁵⁄₁₆ per cent; three months 9⅞ per cent; six months 9⅞ per cent; Bank Bills (sell): one-month 9¹⁵⁄₁₆ per cent; three months 9⅞ per cent; Treasury Bills: Average tender rate of discount 9.3907 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day April 30, 1992. Agreed rates for period May 26, 1992 to June 23, 1992, Scheme I: 11.75 p.c. Schemes II & III: 11.93 p.c. Reference rate for period April 1, 1992 to April 30, 1992, Scheme IV&V: 10.685 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 11 from May 1, 1992: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7 per cent; one-three months 9½ per cent; three-six months 9 per cent; six-nine months 9 per cent; nine-twelve months 9 per cent; Under £100,000 7 per cent from Sept 5,1991. Deposits withdrawn for cash 5 per cent.

FINANCIAL FUTURES AND OPTIONS

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls June	Calls September	Calls December	Puts June	Puts September	Puts December
106	2.54	2.83	-	0.01	0.14	-
107	1.56	-	-	0.02	0.28	-
108	0.64	1.52	1.74	0.08	0.55	0.87
109	0.11	0.78	-	0.56	0.97	-
110	-	0.42	0.82	-	-	-
111	-	0.20	0.53	-	-	-
Open int.	125,635	47,755	10,420	95,206	31,130	11,920

Estimated volume 19,536 Total Open interest 322,149

BASE LENDING RATES

	%		%		%
Adam & Company	10	Credit Lyonnais	10	McDonnell Douglas Bnk	10
Allied Trust Bank	10	Cyprus Popular Bk	10	Midland Bank	10
AIB Bank	10	Duncan Lawrie	10	Mount Banking	10.5
● Henry Ansbacher	10	Equatorial Bank plc	10	NatWestminster	10
B & C Merchant Bank	10.5	Exeter Bank Limited	11	Northern Bank Ltd	10
Bank of Baroda	10	Financial & Gen. Bank	11	Nykredit Mortgage Bank	11
Banco Bilbao Vizcaya	10	First National Bank Plc	14	Provincial Bank PLC	14
Bank of Cyprus	10	● Robert Fleming & Co	10	Roxburghe Bank Ltd	11.5
Bank of Ireland	10	Robert Fraser & Prtns	10.5	Royal Bk of Scotland	10
Bank of India	10	Girobank	10	● Smith & Williamson Secs	10
Bank of Scotland	10	● Guinness Mahon	10	Standard Chartered	10
Banque Belge Ltd	10.5	● Hambros Bank	10	TSB	10
Barclays Bank	10	Hampshire Trust Plc	13.5	Unibank plc	10
Benchmark Bank	11	Heritable & Gen Inv Bnk	10	● United Bk of Kuwait	10
Brit Bk of Mid East	10	● Hill Samuel	10	Unity Trust Bank Plc	10
● Brown Shipley	10	C. Hoare & Co	10	Western Trust	10
CL Bank Nederland	10	Hongkong & Shanghai	10	Westpac Bank Corp	10.5
Citibank NA	10	Julian Hodge Bank	10	Whiteaway Laidlaw	10
City Merchants Bank	10	● Leopold Joseph & Sons	10	Yorkshire Bank	10
Clydesdale Bank	10	Lloyds Bank	10		
Co-operative Bank	10	Meghraj Bank Ltd	10		
Coutts & Co	10				

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKET FUNDS

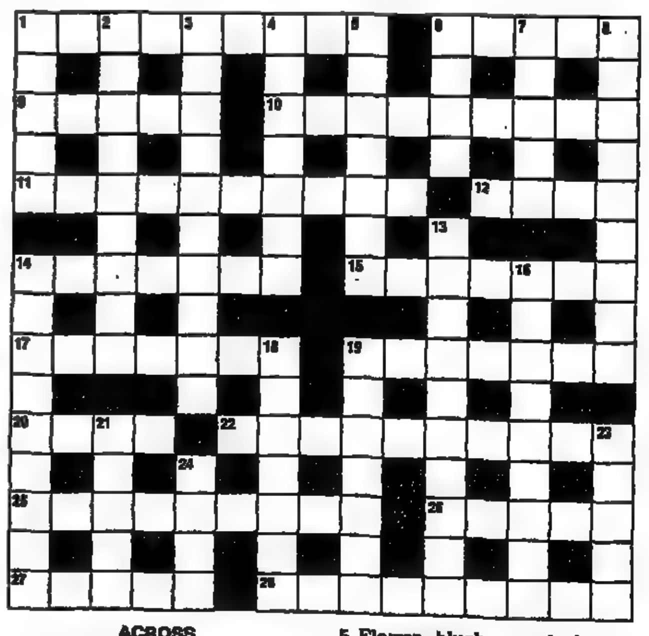
Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

CROSSWORD

No.7,846 Set by FETTLER



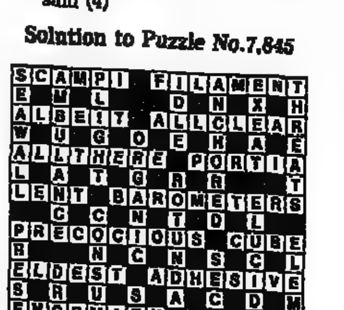
ACROSS

1 As can be seen, each device is cunningly contrived (9)
6 Murphy, for one, returned to disclaim (5)
9 I'm backing the most important lines (5)
10 Old cartoon mouse has a knack, we hear (9)
11 Divorcee, one reckoned blameless (10)
12 Tea lady cleaning fish (4)
14 Samuel personified in staid RI perhaps (7)
15 Linen cut, and cut unevenly, for a short shirt (7)
17 Folded hamper, containing left-over chop (7)
19 Gins or ginns (7)
20 Punishment in European capital perhaps? (4)
22 Eric is most involved in a body-building system (10)
25 To MPs, pure gerrymandering is important (9)
26 Green vine, one that's wild (5)
27 Worker, redeployed, had committed offence (5)
28 Shield bearer's cheers excitedly greet her majesty (9)

DOWN

1 Feline family's sin (5)
2 Might a porter be depraved? (9)
3 Half trembler inside is what ultras are (10)
4 Unsettled tax bill restrains little old lady (7)
5 Flower, blush rose, had gone (7)
6 Gin? Knock back a bit (4)
7 Genesis has rib returning to her beginnings (5)
8 Judges musical instruments (9)
13 Melting ices, sent in urgency (10)
14 Deviation of French river around a region (9)
16 Rice tic is irritating carp (9)
18 Girl's left to play about (7)
19 Packhorse exercises in the old country (7)
21 Press Association leaders each produce a daily (5)
23 Guide boat in turbulent River Tees (5)
24 Brought up on staple food its said (4)

Solution to Puzzle No.7,845



WORLD STOCK MARKETS

CANADA

TORONTO

4:00 pm prices May 12

MONTREAL

4.00 pm prices May 12

INDICES

NEW YORK

DOW JONES

STANDARD AND POOR'S

	May 8	May 1	Apr 24	year ago (approx.)
Dow Industrial Div. Yield	2.77	2.79	2.80	3.14

	May 6	Apr 29	Apr 22	year ago (approx.)
S & P Industrial div. yield	2.61	2.62	2.63	2.78
S & P Indl. P/E ratio	29.29	28.96	28.80	18.57

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Telefonos	7,512,600	56¼	- ⅛
Limited Inc	6,208,900	21⅝	- 2⅝
Saatchi Co	2,927,300	1¼	---
Brunswick	2,178,300	16⅝	---
Coca Cola	1,944,400	42⅝	+ ⅛
Compter Ind	1,921,900	47⅝	---
Duke Power	1,629,400	34⅝	- ⅛
Citicorp	1,618,600	18⅝	- ⅛
Fannie Mae	1,454,500	65	+ 1⅛
Am T & T	1,419,500	43⅛	---

TRADING ACTIVITY

† Volume (Millions)	May 12	May 11	May 8
New York SE	192.810	159.730	168.670
Amex	1.526	12.005	16.307
NASDAQ	(o)	141.067	154.707
NYSE			
Issues Traded	2,260	2,269	2,252
Rises	731	1,084	849
Falls	978	640	805
Unchanged	551	545	598
New Highs	92	94	77
New Lows	19	11	10

CANADA

TORONTO	May 12	May 11	May 8	May 7	1992 HIGH	1992 LOW
Metals & Minerals	3089.15	3069.33	2995.50	2985.60	3238.67 (16/1)	2826.26 (8/4)
Composite	3427.89	3427.23	3374.40	3362.90	3666.00 (16/1)	3318.10 (8/4)
MONTREAL Portfolio	1801.88	1795.29	1763.88	1755.35	1937.59 (16/1)	1727.04 (8/4)

Base values of all indices are 100 except NYSE All Common – 50, Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds ‡ Industrial, plus Utilities, Financial and Transportation (c) Closed. (u) Unavailable.

*Saturday May 9: Taiwan Weighted Price 4428.97, Korea Comp Ex ...

‡ Subject to official recalculation.

Base values of all indices are 100 except: Austria Traded BEL20 HEX ... and DAX – 1,000 JSE Gold – 255.7, JSE 25 Industrials – 264.3 and A... Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Tuesday 12 May 1992

	Stocks Traded	Closing Prices	Change on day
Japan Metal	9.3m	706	-2
Okamoto Inds	6.4m	1,420	+30
Chiyoda Corp	6.2m	1,710	+80
Nippon Zeon	6.0m	660	-4
Meiji Milk Prod	4.1m	915	-29
Morinaga Milk	4.1m	639	-5
Nippon Mining	3.7m	455	+1
Toshiba Corp	3.7m	680	-2
Sanyo Elec Co	3.5m	491	-12
Showa Line	2.8m	387	+8

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4:00 pm prices May 12

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	12¾	AAR Corp x	0.48	3.5	16	1061	13⅞	13½	13⅝	-¼
28	20⅝	A L Labs A	0.18	0.8	77	495	23¼	23	23¼	+⅛
68¾	56	AMP Inc x	1.52	2.4	25	1225	63½	62⅞	63¼	-¼
80¼	64¾	AMR			160	1752	68⅞	68	68¼	
2⅛	1⅛	ARx			2	70	1⅞	1⅞	1⅞	+⅛
53½	40¼	ASA	2.00	4.7	12	291	42½	42	42½	
68⅜	56¾	Abbott Lab	1.20	1.8	25	4462	67⅛	65⅞	66½	-⅝
13⅞	12	Abitibi Pr	0.42	3.4	8	22	12⅜	12¼	12⅜	+¼
11⅝	10⅛	ACM Gvt In x	0.96	8.9		373	10¾	10⅝	10¾	
10⅛	9⅛	ACM GvOpp x	0.80	8.5		101	9½	9⅜	9⅜	-⅛
9½	8½	ACM Gvt Sp	0.80	9.0		573	8⅞	8¾	8⅞	
11¼	10⅛	ACM Gvt Se	0.96	9.0		651	10⅝	[illegible]	10⅝	-⅛
9½	8⅝	ACM Man x	0.96	10.1		443	u9½	9⅜	9⅞	
12⅞	10⅝	ACM Mgd x	1.08	9.6		102	11⅜	11¼	11¼	
11⅞	6½	Acme Cleve	0.40	6.2	28	532	6⅝	d6¼	6½	-⅛
6¼	4½	Acme Elect			4	10	5¼	5¼	5¼	
33¼	18⅞	Acuson			14	438	23	22¼	22⅞	+⅛
13½	18⅛	Adams Exp x	0.48	2.6	0	43	18⅞	18¾	18¾	-⅛
15½	13	Adobe12PI	2.40	16.0		152	15	15	15	
5⅞	4½	Adobe Res			2	32	5	5	5	-⅛
49⅛	39	Ad Micro	3.00	6.6		183	45½	45	45⅛	+½
21½	14⅝	Ad Micro P	3.00	16.6		73828	18½	18	18⅛	
9⅛	5	Advest Grp	0.16	2.4	67	38	6⅞	6⅞	6⅞	-⅛
71¾	66½	Aegon ADR x	1.50	2.3	6	7	66¼	d66¼	66¼	-¼
47	39	Aetna Li	2.76	6.7	9	1119	41⅜	41⅛	41¼	-⅛
12	8⅝	Affil A x	0.24	2.2	12	194	11	10⅞	10⅞	-⅛
32⅞	24	Aflac x	0.44	1.6	14	336	27⅞	27⅜	27⅜	-⅛
19⅝	15⅛	Ahmanson x	0.88	5.1	8	1634	17⅛	16⅞	17¼	+⅛
22½	9	Aileen Inc			8	1079	10⅝	9⅞	10½	
49½	36½	Air Pr Chm	0.80	1.7	20	2451	47⅝	47⅛	47½	+⅜
29¼	15⅞	Airbne Frt x	0.30	1.9	13	8245	16⅝	16	16	-⅝
27	22⅝	Airgas Inc			29	69	u27	26⅞	26⅞	-⅝
12½	8⅛	Airlease	1.65	15.3	7	36	11	10⅞	10⅞	+⅛
104	99½	AlaPw8.16	8.16	8.0		2	99½	d98½	102½	+2½
25⅛	21⅞	AlaPw PfA	2.00	8.0		11	u25⅛	25⅛	25⅛	
107	102½	AlaPw9.44	9.44	9.0		z100	102½	d102½	105	+2½
108	102⅝	Alab Pw 11				2	104	104	104	
105	101½	Alab Pw 9P	9.00	8.7		z100	104½	104½	103½	-1
105	100¼	Alab 8.28C	8.28	8.0		5	103½	103½	103¼	+1¼
11	10½	AlaPwDpPf	0.87	8.0		36	10⅞	10⅝	10⅞	
23⅞	17⅛	Alaska Air	0.20	1.0	116	517	19⅜	19⅛	19¼	+⅛
21¼	16¾	Albany Intl	0.36	1.9	43	6	18⅝	18½	18⅝	-⅛
32	24	AlCulvr B	0.24	1.0	21	309	25	24⅞	25	+⅛
25¼	21	AlCulvr A	0.24	1.0	20	335	23⅞	23	23	-⅛
44⅞	36¼	Albertsons x	0.64	1.6	21	1188	41¼	40½	40⅞	
22¾	18⅝	Alcan Alum	0.60	2.9	68	4243	20⅞	20½	20⅝	-¼
41⅞	33⅛	Alco Stand	0.92	2.3	18	496	40⅛	40⅛	40½	
23⅛	15⅞	AlexBrown	0.40	2.2	4	477	18	17⅞	17⅞	-⅛
23⅛	19	Alex Alex	1.00	5.0	134	542	20	19½	20	+⅛
25¼	9⅞	Alexanders				3	313	12	11⅝	11⅝	+⅛

NYSE COMPOSITE PRICES

Continued from previous page

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices May 12

NASDAQ NATIONAL MARKET

4:00 pm prices May 12

AMERICA

Inflation data fail to spur Dow to 3,400

Wall Street

GOOD inflation news and another fall in bond yields failed to boost US stock prices yesterday, as investors passed up the opportunity to push the Dow Jones Industrial Average above 3,400, *writes Patrick Harverson in New York.*

At the close the Dow was off 12.46 at 3,385.12. At one point the index was more than 20 points down, but a late rally halved the mid-afternoon losses. The more broadly based Standard & Poor's 500 receded 2.21 to 416.28, while the Nasdaq composite index slipped 3.17 to 583.96. Turnover on the New York SE was 194m shares.

The day's inflation news – a 0.3 per cent rise in April producer prices – was well received. The increase in prices was slightly smaller than expected, and some analysts said fresh evidence that inflation was not a threat to the economy left the door open for the Federal Reserve to cut interest rates further.

That the inflation numbers, and the subsequent fall in bond yields, failed to provide a boost to prices was primarily due to technical factors. Dealers said that a short-term ceiling on prices had been set at 3,400 on the Dow, and profit-taking emerged as soon as the index threatened to breach that level.

Citicorp dipped $¾ to $18⅞ in heavy trading after the banking group offered to exchange newly issued common shares for all of its second and third series adjustable rate preferred shares.

General Mills put on $⅞ to $62⅝ on news that its three continental European snacks businesses would be merging with three similar operations owned by Pepsico, which lost $⅞ to $35⅞.

News Corp rose $1 to $33 in the wake of a turnround in the Australian parent group's fiscal third-quarter earnings.

The Limited fell $2⅞ to $21⅞ after disappointing the market with first-quarter net profits of $51.5m, barely higher than a year ago in spite of enjoying a one-off pre-tax gain of $9m.

On the American Stock Exchange, Sbarro plunged $11, or almost a third, to $27 after Morgan Stanley cut its earnings estimate and investment ratings for the stock in the wake of the company's poor first-quarter performance.

On the Nasdaq market, Midlantic jumped $1¾ to $10¼ in turnover of more than 2m shares after senior executives from the regional bank holding company were reported to have told analysts in New York that the company anticipated a further decline in its problem loans.

In the same sector, Star Banc moved forward $⅞ to $37 and Fifth Third Bancorp declined $¾ to $42¾ on reports that institutional investors were putting pressure on Star Banc to consider a bid from its rival Ohio banking group.

Canada

TORONTO stocks tumbled from midday highs to end flat as bullish sentiment over the slight rise in the US producer price index waned late in the day.

Weakness in New York muted growing optimism that has been seen in the Toronto market over the last few days. Traders noted, however, that Toronto may continue to outpace New York as it has over the last two sessions.

The composite index was up just 0.7 at 3,427.9 after reaching 3,444.8. Volume totalled 25.7m shares. Advances ran neck and neck with declines, finishing at 286 each.

Interest rates explain Turkish decline

Antonia Sharpe analyses both ends of the latest emerging markets performance chart

Turkey and India languished at the bottom of the emerging markets performance chart in April, while Pakistan comfortably secured the top slot.

According to the data provided by the IFC, part of the World Bank, Turkish equities dropped by 9.8 per cent in local currency terms, but by a bigger 14.5 per cent in terms of the dollar because of the lira's depreciation against the US currency.

Mr Malcolm Cooper, who analyses Turkish stocks for London-based broker Carnegie International, says the fall in the equity market this year can be attributed partly to high interest rates, which have attracted domestic savings to the country's highly developed public debt market. "There are a lot of short-term investors in Turkey, and this makes the equity market volatile," he adds.

The recent crop of good first-quarter results from the corporate sector have so far been ignored by the stock market. But Mr Cooper believes they could still spark a short-term upward correction over the next month. He also notes that equity valuations have dropped back to levels seen in the mid to late 1980s, when international investors first entered the market.

The government's commitment to raising the success rate of its privatisation programme, while regarded as positive by analysts, is not expected to improve the stock market's fortunes greatly.

India, which had jumped 35.3 per cent in dollar terms in March following a government budget designed to open up the country's capital markets, retreated 14.4 per cent last month as a brokers' strike and trading scandals prompted panic selling.

Some foreign analysts are relieved that the speculative bubble has burst, since Indian share prices had lost touch with fundamentals, such as slowing industrial production and uncertainty about future corporate earnings. They add that the Indian stock market will have to fall a lot further to attract foreign investment. Its gain in the first four months is a hefty 74 per cent.

By contrast, Pakistan rebounded by 13.8 per cent last month, reducing its fall since the start of the year to 12.4 per cent, compared with a drop of 22.2 per cent at the end of March.

Investor sentiment had been harmed by investigations into speculative buying on the stock market and, more broadly, by the power struggle in neighbouring Afghanistan.

Latin America was generally firmer, with the exception of Mexico which weakened 4.9 per cent on fears that there would not be enough demand for the government's placement of more shares in Telmex this month. However, Mr Tony Ewell of BZW says that response to the issue picked up just before the pricing of the issue this week.

IFC EMERGING MARKETS PRICE INDICES

Market	No. of stocks	Dollar terms: Apr 30 1992	% Change over month	% Change on Dec '91	Local currency terms: Apr 30 1992	% Change over month	% Change on Dec '91
Latin America							
Argentina	(29)	1,585.39	+9.9	+23.5	87,161,053	+9.9	+22.7
Brazil	(69)	156.32	+3.2	+50.9	115,853,642	+24.2	+231.0
Chile	(35)	2,010.06	+0.6	+30.3	5,383.49	-0.2	+20.8
Colombia	(20)	849.79	+4.5	+5.4	5,629.19	+5.9	+10.6
Mexico	(66)	1,715.50	-4.9	+18.3	27,290.57	-4.6	+17.8
Venezuela	(17)	579.77	+7.4	-14.2	4,949.69	+7.5	-9.7
East Asia							
South Korea	(91)	247.03	+0.4	-13.8	232.52	+0.9	-11.4
Philippines	(30)	1,661.08	+8.4	+15.6	2,093.17	+11.3	+10.0
Taiwan, China	(70)	602.59	-5.8	-4.3	380.83	-6.8	-8.4
South Asia							
India	(62)	479.19	-14.4	+74.1	1,091.33	-14.8	+91.2
Indonesia*	(63)	82.05	-0.4	+11.3	69.60	-0.1	+13.1
Malaysia	(62)	163.77	+1.4	+14.0	170.56	-0.6	+5.8
Pakistan	(58)	279.67	+13.8	-12.4	453.55	+14.1	-11.3
Thailand	(51)	339.00	-8.7	+6.9	330.43	-8.5	+9.5
Euro/Mid East							
Greece	(32)	406.43	-0.4	-1.8	611.40	+0.7	+6.3
Jordan	(27)	102.83	+6.3	+7.0	184.15	+6.7	+7.3
Portugal†	(30)	414.40	+1.4	-3.5	370.35	-0.2	+0.2
Turkey‡	(25)	53.47	-14.5	-37.1	400.31	-9.8	-18.4

*Source: International Finance Corporation. Base date: Dec 1984=100. *Dec 1989=100. †Jan 1986=100. ‡Dec 1986=100*

ASIA PACIFIC

Nikkei turns lower on arbitrage-related selling

Tokyo

WHILE THE Nikkei average turned lower on arbitrage-related selling, sentiment remained positive on the strength of the yen and advances in overseas markets, *writes Emiko Terazono in Tokyo.*

The 225-issue average closed 99.56 off at 18,508.53 after a day's high of 18,716.58 and low of 18,486.89. A rise in the futures market had moved equities higher in the morning.

Volume totalled 400m shares, up from 394m. Dealers led the activity, with investment trusts and foreigners staying on the buy side. The Topix index of all first section stocks lost 2.40 to 1,385.81, but advances remained ahead of declines at the close by 577 to 401, with 154 issues unchanged. In London the ISE/Nikkei 50 index was 0.08 firmer at 1,106.74.

Traders said most participants had become confident that 17,000 is now a firm support level for the Nikkei. Mr Chris Newton at James Capel said domestic institutions were buying cautiously but not actively chasing the rally. "Some institutions expect another buying opportunity at 17,000," he added.

A total of 24 issues reached new highs for the year, while three, including Sekisui Chemical, fell to new lows. Sekisui dropped Y36 to Y885 as investors, discouraged by the company's losses on securities investment, continued to sell the shares.

Speculative stocks, which had been bought by dealers, fell on profit-taking. Meiji Milk Products receded Y29 to Y915 and Morinaga Milk Y8 to Y839. However, Okamoto, the condom maker, added Y30 at Y1,420 on continued dealer buying.

Blue chip electricals, which had gained ground on bargain hunting, eased on light profit-taking by institutions. Sanyo Electric declined Y12 to Y481 and Toshiba Y2 to Y660.

Housing-related issues rose on firm condominium sales figures for April, Haseko gaining Y20 to Y635 and Daikyo Y30 to Y1,180.

Nippon Telegraph and Telephone recovered Y8,000 to Y646,000. Investors were encouraged by finance minister Mr Tsutomu Hata's comment that the government would consider measures to support the stock. The statement follows calls by Mr Gaishi Hiraiwa, a business leader, for official support of NTT's share price.

Foreign investors bought machinery issues. Toshiba Machine climbed Y37 to Y841 and Hitachi Seiki Y52 to Y600.

In Osaka, the OSE average finished 72.67 higher at 21,286.41 in volume of 24.5m shares. Individuals sought low-priced laggards, and textile and machinery shares advanced.

Roundup

FEATURING the Pacific Rim markets yesterday were Hong Kong and Australia, the former attaining a new all-time peak and the latter recording its highest close since last November. Manila was shut for the presidential elections.

HONG KONG met profit-taking late in the session after gaining nearly 80 points in the first hour. The Hang Seng index ended 73.59 up at 5,705.93, its first close above 5,700. Turnover was HK$3.65bn.

Cheung Kong rose 40 cents to HK$34.50. Hong Kong Telecom added 35 cents at HK$10.10 after a strong overnight performance in the US, while HSBC put on 25 cents to HK$44.50.

AUSTRALIA saw strong interest in blue chips. The All Ordinaries index gained 14.7 to 1,676.8 in turnover of A$227.5m.

BHP moved ahead 16 cents to A$14.10 after saying that it planned to develop an oil and gas field. News Corp added 42 cents at A$21.72 ahead of reporting a rise in net profits for the nine months to March.

SEOUL's composite index closed 1.12 down at 586.40 in turnover of Won241.2bn.

Hyundai group subsidiaries rose after Mr Chung Ju-yung, the company's founder and a presidential candidate, pledged to dismantle big conglomerates. Hyundai Motor gained Won200 to Won17,000 and Hyundai Engineering & Construction Won500 to Won11,500.

BOMBAY suffered another plunge as a trading scandal widened. The BSE Index dropped 333.66, or 9.8 per cent, to 3,086.37.

TAIWAN gained ground on bargain hunting following Monday's sharp decline. The weighted index put on 21.07 to 4,289.24 in T$13.28bn turnover.

NEW ZEALAND's capital index advanced 22.61 to 1,494.95, supported by overseas buying of Carter Holt Harvey and Fletcher Challenge. CHH climbed 11 cents to NZ$2.58 and Fletcher appreciated 13 cents to NZ$3.67.

KUALA LUMPUR's composite index eased 0.89 to 603.08 in turnover of M$73.3m.

SOUTH AFRICA

JOHANNESBURG maintained its strong run although indices eased by the close. Industrials gained 18 to 4,529, but off the day's high of 4,535. The overall index advanced 7 to 3,634 while the gold index shed 8 to 1,067.

EUROPE

Rights issues prospect weighs on equities

RIGHTS ISSUES in the pipeline, or merely in prospect, added to strike fears in Germany to take the edge off continental equities yesterday, *writes Our Markets Staff.*

MILAN sank to another 1992 low on fears that more companies would announce capital increases to beat the privatisation programme expected from the state holding company, Iri, in the second half of the year. Fiat lost L100 to L5,025 on rumours that it was planning a rights issue but then rebounded L15 later. The Comit index fell 6.45 to 481.60 in turnover estimated at L100bn after Monday's L86.6bn.

Burgo dropped L560 or 7.9 per cent to L6,570 as disconcerted traders over-reacted to news of a 3 per cent drop in 1991 consolidated net earnings and a dividend cut of L200 to L450.

The aeronautics group, Alenia, dropped L174 or 9.7 per cent to L1,620 on reports that Germany wanted to scale down the Eurofighter programme.

PARIS fell back as traders got wind of a cash call from Pechiney International, details of which emerged piecemeal after the close. Analysts said that other companies were likely to take advantage of the market's recent strength to make rights issues. Possible candidates were Accor and Saint Gobain, they said. The CAC-40 index dropped 13.86 to 2,063.63 in heavy turnover of FFr3.4bn.

Pechiney International fell FFr9 to FFr207 in anticipation of its funding move. The state, which owns 60 per cent of Pechiney International via its parent, Pechiney, is not going to exercise its warrants at the upcoming striking date in June.

These warrants were taken on and exercised yesterday by a banking consortium. Pechiney International said the new shares were being sold in a private placement to investors in France and abroad.

Alcatel Alsthom, whose first quarter results were in line with expectations, fell FFr18 to FFr661 on profit-taking.

Euro Disney dropped FFr5.70 or 4.4 per cent to FFr125.30 on a report that attendance at the theme park was below target. Eurotunnel was another casualty, dropping FFr1.35 or 5 per cent to FFr37.60 in 1.4m shares amid talk that it would have a rights issue reserved for TML to resolve their cost dispute.

FRANKFURT expressed concern about the prospect of a metalworkers' strike but equities maintained their holding pattern. Following a 1.10 decline to 706.82 in the FAZ index at midsession, the DAX closed 1.87 lower at 1,751.16, market turnover easing from DM6.5bn to DM6.2bn.

Among carmakers, Daimler fell DM7 to DM782, dealers blaming reports that a fighter jet which its Deutsche Aerospace unit had helped develop was unlikely to be be built. Volkswagen fell DM4.30 to DM392, and this fall was put down to profit-taking after its recent rally.

Dresdner Bank closed DM2.30 higher at DM359.80 for a two-day gain of DM6.80, reflecting buying for Friday's dividend payment. Continental, the tyremaker, recovered DM4.20 of Monday's DM11 loss to close at DM268.20, after the downward revision of weekend rights issue expectations.

ZURICH broke its uptrend on general and specific grounds. Higher Swiss money market rates weighed on the banking sector, within which SBC bearers dropped SFr6 to SFr261.

After the close the US rating agency, Moody's, said that it had downgraded SBC's senior debt to AA-1 from AAA, and SBC said that this would have no material effect. The SMI index fell 12.9 to 1,950.8.

STOCKHOLM ran into profit-taking. The Affärsvärlden General index eased 8.1 to 1,006.4 in turnover of SKr576m after SKr677m.

Volvo fell back on disappointment that rumours of an early merger with Renault had not been confirmed. Its B free shares fell SKr7 to SKr444. Ericsson rose SKr1 to SKr135 on news of a SKr700m telephone system order in Tokyo.

AMSTERDAM weakened slightly with the CBS Tendency index losing 0.2 to 130.2.

Buehrmann-Tetterode rose Fl 1.10 to Fl 49.40; it reported lower first quarter profits, but forecast an improvement over the year. Ahold was 90 cents stronger at Fl 88 on better first quarter sales while Internatio-Mueller put on Fl 2.30 or 3.5 per cent to Fl 67 ahead of tomorrow's annual meeting.

MADRID lost ground on profit-taking. The general index fell 1.18 to 257.91 in turnover estimated at Pta14.5bn.

FT-SE Eurotrack 100 - May 12

Hourly changes

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm	close
1189.48	1189.35	1189.80	1190.16	1189.60	1189.22	1189.37	1188.40

Day's High 1190.96 Day's Low 1187.78

May 11	May 8	May 7	May 6	May 5
1191.63	1188.95†	1182.52	1182.62	1176.23

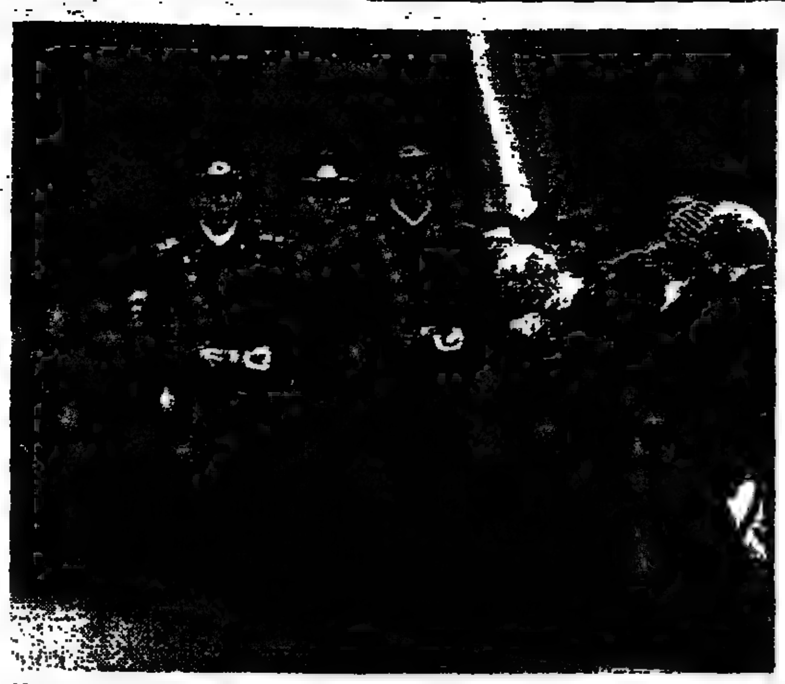
Base value 1000 (26/10/90). † Partial.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	TUESDAY MAY 12 1992: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY MAY 11 1992: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 1992 High	1992 Low	Year ago (approx)
Australia (69)	150.46	+1.2	123.07	124.06	126.84	133.29	+0.9	4.13	148.73	122.95	125.18	126.85	132.08	153.68	140.94	143.05
Austria (19)	165.32	−0.1	135.23	136.32	139.37	140.05	−0.8	2.09	165.47	136.78	139.27	141.13	141.24	186.70	162.46	201.21
Belgium (46)	143.60	+1.2	117.46	118.40	121.05	118.46	+0.2	5.14	141.85	117.26	119.38	120.98	118.24	145.19	135.87	136.92
Canada (115)	127.68	+0.0	104.44	105.27	107.62	111.59	+0.0	3.28	127.72	105.58	107.49	108.92	111.54	142.12	125.60	138.92
Denmark (35)	240.35	+0.1	196.60	198.20	202.62	205.82	−0.8	1.78	240.02	198.41	202.02	204.71	207.21	273.94	226.81	236.69
Finland (15)	82.35	+1.1	67.36	67.91	69.42	76.48	+0.3	1.80	81.47	67.34	68.57	69.48	75.23	89.80	73.64	115.31
France (105)	167.06	+0.6	136.66	137.75	140.82	142.62	−0.7	3.30	166.02	137.24	139.73	141.59	143.63	167.06	146.06	137.96
Germany (65)	120.79	+1.0	98.80	99.62	101.82	101.82	−0.1	2.28	119.56	98.84	100.64	101.97	101.97	122.84	114.67	110.64
Hong Kong (55)	236.10	+1.1	193.12	194.65	199.04	234.75	+1.1	3.48	233.62	193.12	196.62	199.26	232.22	236.10	176.36	155.83
Ireland (16)	163.28	+0.4	133.56	134.64	137.64	139.90	−0.7	3.79	162.61	134.42	136.87	138.69	140.83	173.71	151.78	156.37
Italy (78)	69.11	−0.1	56.53	56.99	58.26	62.99	−1.3	3.66	69.22	57.22	58.25	59.03	63.84	80.88	68.92	79.23
Japan (473)	104.33	+1.6	85.34	86.03	87.97	88.03	−0.4	0.99	102.65	84.85	86.39	87.56	86.29	140.95	86.70	138.85
Malaysia (68)	241.74	+0.5	197.74	199.33	203.78	234.47	−0.3	2.76	240.63	198.92	202.52	205.22	235.07	250.18	212.49	230.01
Mexico (18)	1636.43	+0.2	1338.57	1349.39	1379.54	5530.38	−0.3	1.06	1633.08	1349.96	1374.51	1392.85	5549.42	1789.77	1376.91	890.72
Netherland (25)	156.88	+1.0	129.96	131.01	133.94	132.37	−0.1	4.22	157.29	130.02	132.38	134.15	132.52	158.88	147.88	140.62
New Zealand (14)	44.90	+1.2	36.73	37.03	37.85	44.84	+1.6	5.70	44.35	36.66	37.33	37.83	44.12	48.52	42.01	51.19
Norway (23)	187.65	+0.1	153.49	154.74	158.20	161.86	−0.7	1.88	187.39	154.90	157.72	159.82	163.08	192.95	161.26	207.10
Singapore (38)	213.71	+0.3	174.81	176.23	180.16	162.01	+0.1	2.02	213.01	176.08	179.28	181.67	161.91	226.43	192.76	201.62
South Africa (61)	241.25	−1.5	197.33	198.93	203.37	183.43	+0.2	2.75	244.94	202.47	206.15	208.90	183.05	263.60	203.16	206.60
Spain (50)	156.70	+0.6	128.18	129.22	132.10	120.37	−0.6	5.05	155.81	128.80	131.14	132.89	121.05	160.47	146.85	163.48
Sweden (25)	194.22	+0.7	158.87	160.16	163.74	168.13	−0.4	2.69	192.92	159.48	162.38	164.55	168.79	194.22	173.09	178.59
Switzerland (59)	105.49	+1.0	86.29	86.99	88.94	98.36	−0.6	2.17	104.44	86.33	87.91	89.09	98.93	105.49	85.99	94.16
United Kingdom (228)	198.53	+0.5	162.40	163.70	167.35	162.40	−0.6	4.56	197.58	163.31	166.26	168.48	163.31	196.53	166.86	172.08
USA (522)	169.76	−0.5	138.86	139.99	143.12	169.76	−0.5	2.94	170.60	141.03	143.60	145.51	170.60	171.66	160.92	150.55
Europe (789)	154.97	+0.6	126.76	127.79	130.65	129.62	−0.5	3.79	154.00	127.30	129.61	131.36	130.30	154.97	139.31	139.66
Nordic (98)	181.49	+0.4	148.45	149.65	153.00	150.78	−0.6	2.14	180.78	149.44	152.16	154.19	151.86	188.52	169.66	178.97
Pacific Basin (717)	110.25	+1.5	90.18	90.91	92.94	91.77	−0.2	1.30	108.57	89.75	91.38	92.60	91.99	141.97	94.40	130.23
Euro – Pacific (1506)	128.36	+1.1	104.99	105.83	108.20	107.43	−0.4	2.53	126.95	104.94	106.84	108.27	107.84	145.21	113.60	139.75
North America (637)	167.12	−0.5	136.70	137.82	140.91	165.80	−0.5	2.98	167.92	138.81	141.35	143.24	166.58	169.69	158.70	149.62
Europe Ex. UK (561)	129.23	+0.7	105.71	106.59	108.97	110.77	−0.5	3.19	128.26	106.04	107.99	109.43	111.31	129.79	121.81	119.90
Pacific Ex. Japan (244)	168.54	+1.0	137.86	139.00	142.10	150.58	+0.0	3.01	166.91	137.97	140.50	142.37	149.37	168.54	149.00	142.73
World Ex. US (1700)	130.56	+1.0	106.79	107.66	110.07	109.70	−0.3	2.54	129.26	106.85	108.80	110.25	110.08	146.91	116.45	140.82
World Ex. UK (1994)	137.54	+0.4	112.51	113.42	115.96	124.77	−0.4	2.46	137.02	113.27	115.33	116.87	125.26	150.58	127.21	140.21
World Ex. So. Af. (2161)	142.15	+0.4	116.28	117.23	119.84	127.78	−0.4	2.70	141.55	117.01	119.15	120.74	128.31	153.05	130.04	142.65
World Ex. Japan (1749)	164.39	+0.0	134.47	135.57	138.61	152.54	−0.4	3.27	164.41	135.91	138.38	140.25	153.16	164.41	153.20	146.62
The World Index (2222)	142.79	+0.4	116.80	117.75	120.39	128.28	−0.4	2.70	142.23	117.57	119.71	121.32	128.80	153.70	130.65	143.03

THE REFORMING OF RUSSIA



May Day in Moscow, 1992: crowds in snowy weather watch the traditional changing of the guard near Lenin's Mausoleum, while (right), at a Moscow supermarket, a man counts his money. Prices of most goods have soared as Russia allows prices to float in the first steps towards a market economy.

Russia's political and social fabric has borne recent shocks with astonishing resilience, reports **John Lloyd** from Moscow

The pessimists have so far been confounded

A RUSSIA reforming is a vertiginous place. So many questions are open: so many issues are not resolved, the resolution of so many of these seems unattainable; so many movements and trends point to deepening chaos; and yet, so many signs of hope and optimism now appear from beneath the constitutional and institutional rubble of the collapsed Soviet imperium.

The best of times for chroniclers, it is the worst of times for forecasters: who, either Russian or foreigner, could weigh with a hope of certainty, the competing masses of threats and possibilities?

Say the Russian people must rise against the privations they are experiencing, and you must counterpoise a *history of stoic* endurance of much worse.

Say the shoots of enterprise are bursting out, and court instant contradiction by a still powerful, enterprise-hating bureaucrat.

Say that the centre cannot make its writ run throughout the country now that Party and state control has collapsed, and you must at the same time admit that Washington DC had little purchase on many of the states of the Union at the same time as the US was bounding ahead of the old world a century ago.

Pessimists and optimists both find themselves on shifting ground, confounded by the last person they met. Such is the nature of the continuing Russian revolution: the judgments made on its outcomes in more settled times will no doubt trace lines of inevitability: they are not apparent now.

In times no more settled *but* more predictable, two years ago, the FT published a large survey on what was still not the former Soviet Union. Its motif was less of reform than of disintegration: of national and *economic struggles still* constrained by a weight of a Party which sought to monopolise political activity everywhere except, arguably, the Baltics: of the maintenance of a Union which, for example, the *Ukraine, still* dourly upheld.

Much of what has happened since that time was still held then, by Russians and other Soviets and foreigners, as unthinkably dangerous. It is *one of the signs of hope* that few of these dangers have (yet) come to pass.

The collapse of Union and Party authority since that time has been more or less complete, though of course the *effects will still* course through politics here and abroad for years to come.

The putsch in August of last year delivered a coup de grace to a political process which was pretty far advanced – *clearing* the way *for national* agendas which had been held in check by, among other things, fear of just such a reaction. The fear, however, was of one rather better organised and more ruthless than the real thing *luckily turned out* to be.

RUSSIA, with half-Russian inhabited Kazakhstan, clung on to the Union longer than any other *state: it signed the Union* treaty which Mr Mikhail Gorbachev (now a pensioner) had begged and wheedled all to acknowledge.

But months before Mr Gorbachev read his uncharacteristi*cally brief statement* of resignation just before last Christmas, it was clear this was an empty shell: and Russia, with the two other Slav states of Ukraine and Belorussia, had become a founder *member of the Commonwealth* of Independent States, later extended to all other former Soviet republics save the three Baltic countries and Georgia – which, under the leadership of Mr Zviad Gamsakhurdia, *refused to accede on the* grounds that it was a front for Russian imperialism and now, under the leadership of Mr Eduard Shevardnadze, is not signing because the CIS has proved to be a front for nothing very much at all.

It is still a little too early to write the obituary of the commonwealth: later this week, the leaders of the commonwealth should meet in Tashkent, in Uzbekistan, for what *the most enthusiastic of the* CIS presidents, Mr Nursultan Nazarbayev of Kazakhstan, has said must be a make-or-break meeting.

None of the elements which must necessarily attend a successful co-operative alliance state have been developed: there is no functioning autonomous centre: no mechanism for confronting disputes except bilateral contacts (which could function as well between states not linked in the *CIS*); less and less of a common army, as Russia, the paymaster of the "CIS forces" now concentrates on building up its own military.

The only function it seems to have is that which Mr Leonid Kravchuk, *the subtle* Ukrainian president, has outlined for it: of seeking to conduct a civilised divorce.

Even that, however, is not yet really being undertaken: there has been no division of *Union property, except* on the rough justice principle of each state taking what is on its ter-

Continued on next page

Daunting inheritance for Boris Yeltsin

■ Russia's president Yeltsin, pictured above, *faces* a critical period in the next few months. Meanwhile, the youngest cabinet *in Russian history* – most of the key ministers are in their 30s – is being entrusted with the momentous task of switching the country to a market economy after 75 years ..PAGE 6

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Editorial production: Michael Wiltshire.
Graphics: Bob Hutchison; pictures: Tony Andrews.

THE REFORMING OF RUSSIA 2

After the fumblings of the Gorbachev era, Boris Yeltsin's government of young technocrats at last takes reform in hand, says **Martin Wolf**

Starting down a bumpy road to the market

YEGOR GAIDAR, Russia's dynamic young deputy prime minister in charge of economic reform, deserves sympathy.

Working with his team of equally young ministers, under the leadership of President Boris Yeltsin, he is engaged in perhaps the most difficult and ambitious programme of economic and social reform ever undertaken. Yet not only are the people at large sullen and the apparatchiks of the former regime volubly opposed; but even the small band of westernised intellectuals criticises the government at every turn.

They complain of the failure to start structural reforms before price liberalisation; they complain of the failure to privatise housing; they complain of the failure to de-monopolise industry; they complain of the failure to sustain monetary coordination throughout the the former Soviet Union; and they complain of the harshness of the monetary squeeze. Soon they will convince the people that their difficulties are owed to the present government, not to its predecessors.

Indicators of acute economic crisis

They will not convince the government itself. As it told the International Monetary Fund in its Memorandum of Economic Policies of February 1992, "by the beginning of this decade, the economy was in a state of acute crisis, marked by declining output, accelerating inflation, obsolescent capital stock, pervasive distortions in the relative price structure, serious structural imbalances, and severe ecological problems."

This is, if anything, an understatement. Russia is the largest remnant of a defeated and bankrupt empire. Of that there is one nigh on perfect indicator: so despised has the Soviet ruble become that at present market exchange rates, Russia's annualised gross national product in the first quarter of 1992 was smaller than Belgium's.

Consider the government's short term inheritance:

● Falls in the former Soviet Union's measured gross national product of 4 per cent in 1990 and 13 per cent last year.

● External debt of over $80bn and virtually no foreign exchange reserves.

● Rapid declines during 1990 and 1991 in production and export of oil, Russia's most valuable single commodity.

● Real industrial wages up by over 20 per cent between 1987 and 1990, and by still more in 1991, if only on paper, despite falling productivity.

● Years of fiscal profligacy, culminating last year in a budget deficit for the Union of 20 per cent of GNP.

● A monetary overhang at the end of 1991 of large, but unknown dimensions.

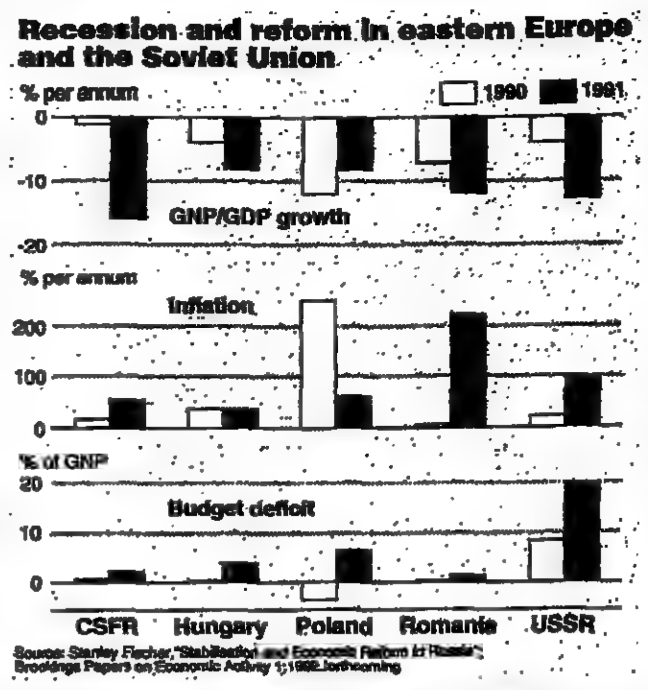
● A debauched currency shared by 15 largely uncoordinated central banks.

● And a breakdown of economic relations among enterprises and, still more, among republics.

No government would wish to start from here. But reform could hardly have started from anywhere else. Only the bunglings of the Gorbachev era could have made radical reform inevitable. How, other than in the name of perestroika, could the command system created by Stalin have been so thoroughly dismantled?

Yet that very bungling makes successful reform exasperatingly difficult. For, as was the case in Poland in 1989, though to a still greater extent, the Russian government starts with a severe stabilisation crisis, itself a symptom of the breakdown of the Soviet state.

As Mr Gaidar remarks with justified bitterness, "we have had three years of strongly negative growth from 1988 to 1991. We paid for the absence of reforms: now we must pay for reforms. We cannot stand three more years of that: one year only (1992) is possible."



Mistakes should be judged with tolerance

So bleak an inheritance means that the efforts of the government should be regarded with sympathy and its mistakes judged with tolerance. But it also offers a ray of hope: can a country so rich in resources, yet so extravagant in their waste, not do better?

On 28 October 1991, President Boris Yeltsin, freed by the failed August coup from both the communist party and the Soviet government, announced a programme of radical reform focusing on economic stabilisation, financial reform and privatisation.

Then, on 19 December the government approved the liberalisation of most prices, except only for a few staple foodstuffs (including vodka), energy (particularly oil) and housing.

The decision to liberalise prices was, and remains, controversial. It violates, for example, the sequence recommended in the 500 day programme for radical reform put forward at the end of 1990 by a group headed by President Gorbachev's close adviser at that time, Stanislav Shatalin. That programme recommended starting with structural change, including radical privatisation, before price liberalisation.

The government started with price liberalisation for four main reasons:

● Reduction in the huge budget deficit would be impossible if subsidies were not dramatically reduced.

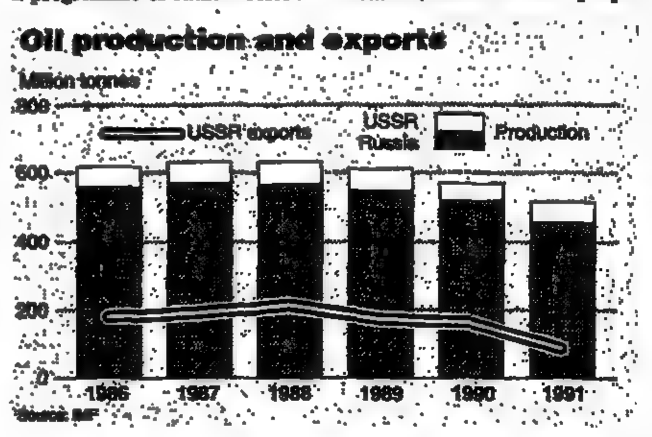
● Shortages, queues, and grey and black marketeering were social cancers.

● Both greater competition and reductions in waste require sensible prices.

● The easiest thing for a government that wishes to show it means business is to stop doing things that are harmful, like controlling prices.

Yet the best indication that formal price liberalisation is, indeed, not enough is the chaotic expansion of street trading that followed the government's controversial decree on freedom of trade. This was a crisis measure, which allowed people to take goods from the official distribution chain - be it by the front or the back door - and resell them.

As a result, the pavements of Moscow now host one of the world's most densely thronged street bazaars.



Surge in prices has eliminated queues

As happened elsewhere, notably in Poland, prices rose by far more than expected: three and a half times in the first month even on official figures.

The surge in prices has lowered the unrealistic official estimates of real incomes by 40 per cent. But it has also eliminated the shortages and queues that reflected not only the gap between wages and the value of output, but also the "monetary overhang", or unspendable store of roubles.

At the end of last year the stock of broad money (M2 on the Russian definition) was about 80 per cent of GDP. By the end of March 1992 that ratio had fallen to below a quarter.

Inevitably, money became very short, particularly cash, the demand for which (at the present face value of the notes) surpassed the capacity of the four printing plants (all located in Russia): many workers have been told that there is no cash for their wages.

Substantial progress has been achieved on the budget deficit. Mr Gaidar insists that in the first three months of the year the budget was balanced: the Ministry of Finance says there was a deficit of about 1¼ per cent of gross domestic product on an expenditure basis and 5 per cent on the basis of commitments, although international financial institutions suspect it may be over 10 per cent.

Nevertheless, the Ministry of Finance has achieved something that has eluded most post-Communist governments: the establishment of a reliable source of revenue independent of profits in the state enterprise sector.

Revenue from value-added tax has risen from Rbs10.5bn (roughly $80m at the market exchange rate) in January, to Rbs54bn in March. To this will soon be added taxation of both domestic consumption and exports of oil and gas as their prices are raised towards world levels.

After initial difficulties in January, following the introduction of a new system of export taxation, export performance has also recovered.

Postponement of the export taxes, introduction of a market exchange rate for hard currency and curtailment of administrative regulations reversed the decline in exports at the beginning of the year. Meanwhile, rescheduling of payments of principal on medium- and long-term loans due in 1992 has saved Russia $11bn of the $21bn that comes due this year.

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A more open, far less threatening place

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ritory – thus producing the absurdity of little Belorussia being a "nuclear power," and of poor Kazakhstan having the capacity, at Baikanur, to launch satellites.

This leaves Russia on its own: a nation shorn of its external Soviet (and Tsarist) empire – though containing, in the numerous ethnic groups within its borders, the traces of much earlier imperial expansion.

As Mr Boris Yeltsin, the Russian president, saw just about two years ago, Russia was the prize which was most desirable to win as the Union faltered and fell.

His political instincts gave him a better feeling for the movement of forces than was apperently available to Mr Gorbachev, and has left him in command as the former struggles to retain his visibility on the sidelines.

Yet Mr Yeltsin's inheritance is a daunting one, even for a spirit as resilient as his has proved to be. Like the symbols of Soviet power which remain everywhere visible throughout Russia, the economy, the society and the institutions remain substantially unreformed and retain a large latent power, if not to recover a former authority, then certainly to block change and to force compromise.

At the Congress of Peoples' Deputies in April, it was apparent that the majority of that particular unreformed body – whose deputies still owed their election to the system under which seats were allocated to the Party and its front organisations – was hostile to the government's economic reforms, in revolt against the special presidential powers to select the government and push through decrees and reluctant to even discuss new drafts of a constitution.

Declaration of support

Under the pressure of the government's threatened resignation, the parliament was led to agree a declaration of support for the economic reforms: but Mr Yeltsin was put under notice to propose a new government, including a replacement for himself as Prime Minister, within three months – while the draft constitutions were not even brought to the floor of the Congress.

In this case, the unreformed nature of the Congress suited Mr Yeltsin and the government: for had it been democratically elected, with a clear mandate from the people, its criticisms and decisions would have carried more weight.

As it is, Mr Yeltsin is able to again go to the country with his own version of a constitution crafted to give him, as President, full powers to appoint governments and to issue decrees.

His supporters in the democratic parties are now setting about collecting the necessary a million signatures to hold such a referendum: it will be divisive, but he must now assume that his popularity, and the present lack of an alternative figure to challenge his pre-eminence as a politician, will see it through.

He can also profit by the disarray among the emerging political parties and groups. The communists, now under various banners, showed, during the Congress, that they had little force on their own: only when allied to the nationalists could they be decisive.

'However, that alliance is a distrustful and tense one, with each group seeking to maximise its position and often enmired in ideological disputes of little interest to the public.

The various democrats are similarly split and distrustful, but with various degrees of reluctance are prepared to back the government programme, and the president, for lack of an alternative.

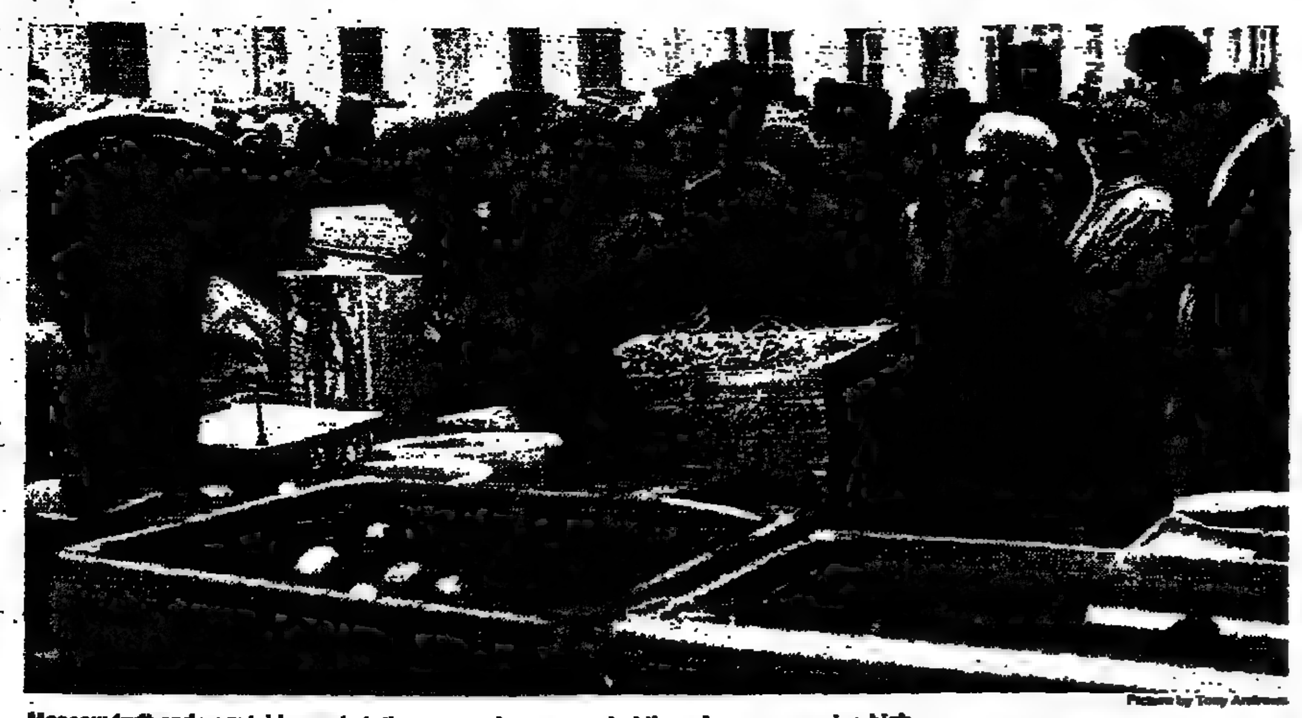
The next few months are a critical period: the government, having won support from the Group of Seven countries and the IMF to the tune of $24bn in backing for their economic programme, must now implement it: the government must keep credit tight, attempt to move towards rouble convertibility, put more effort behind privatisation of small businesses and the transformation of the larger state companies into joint stock enterprises.

If they succeed, they will force companies to adapt: that adaptation will, in turn, cause bankruptcies and unemployment – the malign result of a much-needed movement.

More shocks are yet to come. The political and social fabric has so far borne such shocks with astonishing resilience, confounding the pessimists at home and abroad.

Russia, today, is a much more open, much less threatening place, with relatively free media and with a broad space given to the profession of faith and opinion.

The potential for reaction and chaos is clear: yet the possibilities for its full membership of and integration in world society has never been greater.



Moscow fruit and vegetable market: the queues have gone, but the prices are now too high

Picture by Tony Andrews

A predictably high price

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The action so far has had a *high, if predictable, price*: industrial output is estimated by the government to have fallen by 13 per cent in the first *quarter of 1992 below the level* of a year before.

The behaviour of Russian large enterprises has been similar *to that in other post-com*munist countries. The failure *of such large enterprises* to respond in ways that would *make sense in a market econ*omy is the central problem of post-communist reform. The problem for government is that it can do almost nothing with these enterprises, but can also *do little without them*.

Soaring debts

The combination of price liberalisation with credit control has been greeted by higher prices, lower output, non-payment of debts due to other enterprises (with such debts soaring to some 20 per cent of GNP within a little over three months) and screams of anguish.

The response has been made worse by the collapse in military expenditures. These were once somewhere between 15 and 25 per cent of Soviet GDP, but are now down to a mere 8 per cent of Russian GDP in the first quarter of 1992.

The catatonia of the larger state enterprises is predictable. Since the "reforms" embodied in the Law on State Enterprises of 1987, enterprises answer almost entirely to their managers and, still more, to their workers. Russia is no longer a country of "state capitalism". Yugoslav self-management is a more relevant parallel.

The principal concern of such enterprises is with meeting their wage bills and preserving employment. In the short term, their behaviour can only be changed by starving them of money. But the problem with starving enterprises *of money is that they are little* more frightened of the govern*ment than it is of them*. They, too, have a sanction: the social consequences of their own collapse.

Mr Andrei Nechayev, the economics minister, says he *has noticed an encouraging* shift in the petitions of the *steady stream of enterprise* managers he receives in his *office in the former Gosplan* state planning commission building in the centre of Moscow: they no longer assume he can help them with supplies, but want him to dole out cheap money. He claims he tells them to cut their prices, wages and staff, instead.

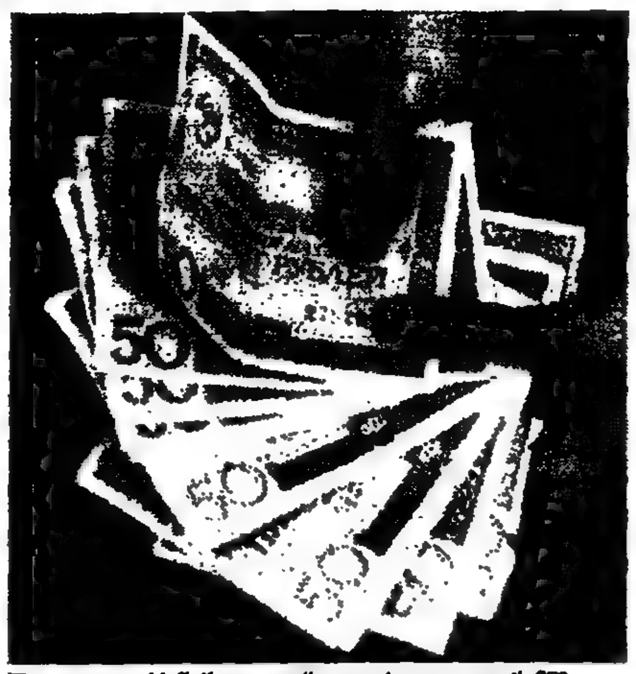
Mr Nechayev also expects Mr Boris Yeltsin, the Russian president, to sign a decree on bankruptcy. This will allow the government to force 10 or 15 companies into liquidation, he says: a small beginning, but an important demonstration to others of the consequence of failure. But can the government force, or even permit, more than a handful of enterprises to close, when the result will be huge increases in open unemployment?

Inextricably linked to the behaviour of enterprises is that of wages.

"Given the rapid growth of wages in the material sphere in the latter part of 1991 and early 1992", says the government in its memorandum to the IMF, "which risks fuelling inflation and may cause unnecessary unemployment, the government is prepared if necessary to introduce measures to prevent excessive growth in wages."

The chances are that it will have to. Here too, however the question is whether the government will be prepared to allow the bankruptcies that alone would make the envisaged wage tax effective.

Macroeconomic control is, in fact, almost impossible without changes in the structure and ownership of enterprises. It is largely because of the scale of inter-enterprise indebtedness that the government has felt it necessary to authorise Rbs200bn in extra investment credits from the Central Bank of Russia over the next six months.



The ravages of inflation: once these notes were worth $50 each . . . now they are worth around 50 cents

Mr Nechayev has also put aside Rbs42bn to assist defence conversion and another Rbs40bn for social protection of displaced workers in the military sector (neither being very much, given the scale of the problems).

Pressures from the economy (and the budget) are more likely to undermine monetary control than the widely discussed policy differences between the government and the central bank.

Mr Gyorgy Matiukhin, chairman of the Central Bank of Russia, for example, insists he has no fundamental disagreement with government. Mr Nechayev says that "we don't fully believe in the top managers of the Central Bank, but if they resign now, it won't necessarily be better than if they stay."

Mr Gaidar himself now argues that the Russian economy needs to be 'remonetised'. Unfortunately, the monetary grease is to be provided by the central bank.

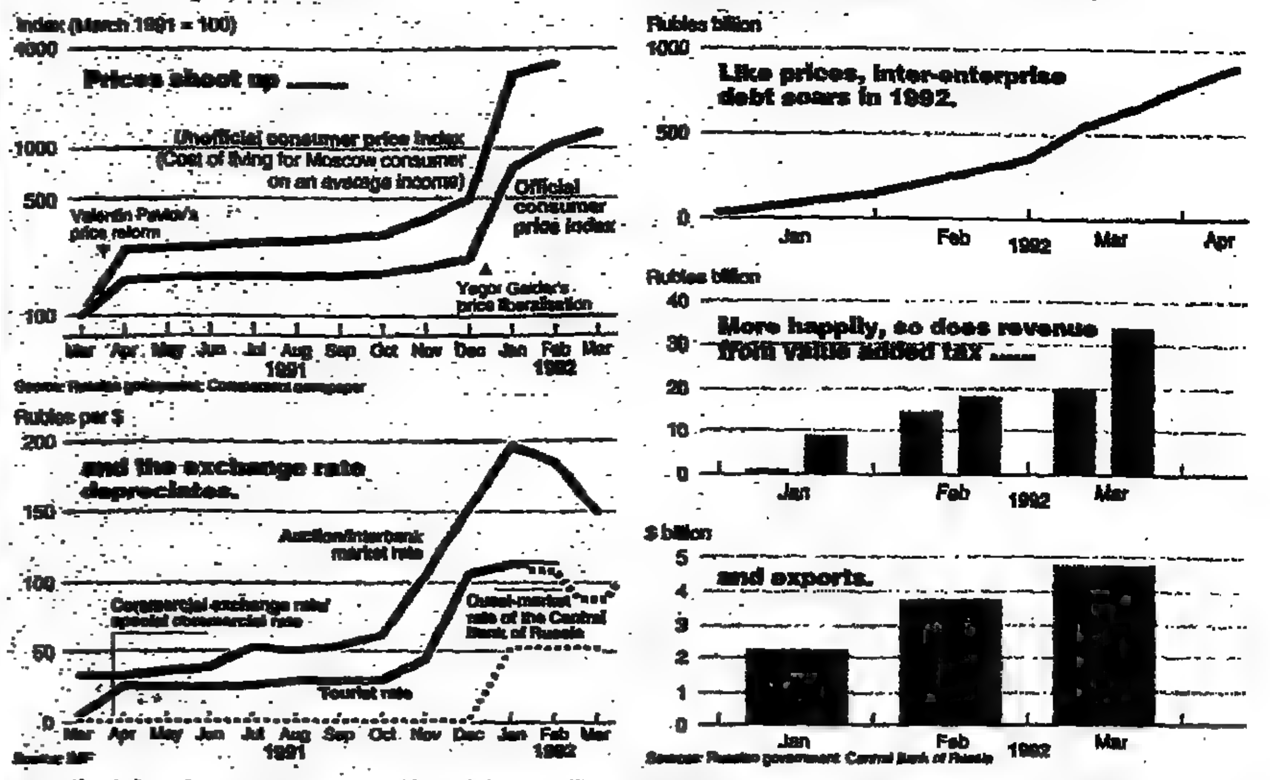
The Central Bank of Russia is expecting an increase in the money supply of between 50 and 120 per cent this year. Some of that will come from monetisation of the budget deficit, expected by the government to be about 5 per cent of GDP.

A credit line to the Ministry of Finance of Rbs67bn has just been established. Far more will come from the Rbs200bn promised to enterprises. Applying the multiplier of 2-2.5 on central bank credit deemed normal in Russia, the total credit expansion already agreed is Rbs700-850bn, or about 50 per cent of recent levels.

Russia's central bankers do, indeed, tend to see their job as providing credit to the economy. The effect of the rate of interest on the willingness to hold money, for example, is outside their customary way of thinking.

It was with reluctance, therefore, that the central bank was persuaded to raise its discount rate to over 50 per cent in early April, even though inflation was estimated at almost 20 per cent in March alone (an annual rate of over 700 per cent). With huge energy price rises in prospect, inflation is likely to continue at a torrid rate.

Onset of open inflation .... heralds the start of reform



Programme ahead

The government's programme for the rest of the year and beyond covers:

- Privatisation by auction of small-scale shops and enterprises (now started in just a few cities) in 1992.
- Private ownership of land; privatisation of food production and distribution.
- De-monopolisation of industry; commercialisation of larger enterprises and their mass privatisation in 1993.
- Creation of an adequate social safety net.
- Further price liberalisation, including the raising of energy prices to world levels.
- Liberalisation of international trade.
- And resident convertibility of the rouble on current account.

None of this will be easy. Some of it will be hugely difficult. Small scale privatisation is feasible and desirable. Privatisation of large scale enterprise will turn out to be far more difficult than the government imagines.

If experience elsewhere is any guide, ministers will be driven to industrial policy, but will fail to make a success of it. *Meanwhile*, any safety net could be swiftly broken by a large increase in unemployment.

Energy prices must be raised if the economy is to be more *efficient (not to mention less* polluting). The government has announced its intention to raise the of oil from Rbs350 price per tonne to between Rbs1,800 and Rbs2,200 and achieve parity with world energy prices by the end of 1993.

Domestic taxation of oil and gas is expected to amount to 4.7 per cent of GDP and taxation of exports, largely of oil and gas, to 9.1 per cent of GDP in the last nine months of 1992, according to the government's February memorandum to the IMF.

These taxes – up from very little in the first quarter of 1992 – will be paid by domestic consumers and, above all, by those in other members of the Commonwealth of Independent States. Offsetting subsidies or credits will be necessary, at least for a transitional period, if output is not to collapse.

The planned convertible and fixed exchange rate will increase competition in the economy as well as provide a degree of monetary stability. Equally, the government is right to believe the present market exchange rate is highly undervalued. To give only one indication, at recent exchange *rates of Rbs123-130 to the dol*lar, Russia's exports are almost as large as its GDP.

Should the nominal rate not *appreciate before it is fixed*, the result will be real appreciation through *domestic* inflation. This is what has happened *since* December 1991. The real value of the market exchange rate for the cash ruble has appreciated more than six times, but only because of domestic inflation.

Exchange convertibility demands monetary control and monetary control demands curbs on emission in other republics of the CIS. But this Gordian knot the government has decided to cut, by the simple expedient of making the rouble Russian.

Key questions

Nothing is easier than raising questions about the likely performance – or, indeed, survival – of the Russian government:

- Can a legal culture supportive of private enterprise be established in Russia's barren soil?
- How high might unemployment go and how well will Russians cope with it?
- Can Russia finance a politically and socially adequate safety net?
- Will it be possible to create *the minimum* needed cooperation over trade and payments among the main members of the *CIS*?
- *Can small enterprises* and farming be privatised quickly?
- Can large *state enterprises* be restructured and privatised and, *if so, how much time will* it take?
- *How long will it be before* economic growth resumes?
- *How far can one rely on* the patience of the Russian people?
- With IMF membership agreed, how soon will the West's $24bn be available and how much difference might it make?

The questions come easily. So do criticisms. It is not true, for example, that there are no alternatives to what the government is trying to do. There are. But few offer anything other than disaster. This is at the least a dynamic and convinced reforming government, if one starting on a long and difficult road.

It will need much help from abroad and much patience at home. It will need luck as well. But it offers a chance, inevitably no more, of what the world wants: economic recovery and political stability in Russia.

THE REFORMING OF RUSSIA 4

Optimistically, the government hopes to achieve large-scale privatisation by the end of 1993, says **Martin Wolf**

The difference between economic reform and revolution

PRIVATISING the Russian economy is the most revolutionary – or rather counter-revolutionary – policy of the Russian government. For mass privatisation is the difference between economic reform and revolution.

Price liberalisation and macroeconomic stabilisation could, in theory have been attempted by reform communists. But successful privatisation would spell *finis* to Bolshevism. Its aim is not just to create a new, more competitive economy. It is to create new classes, new attitudes and new relations between government and the governed.

Counter-revolutions are *prima facie* no easier to make than revolutions, especially when, as was true of Lenin's proletariat in 1917, the class that will be the obvious beneficiary – the bourgeoisie, both big and small – now hardly exists.

The government does not even possess secure control over the levers of national power. Its sole advantage is, in the words of Anatoly Chubais, minister for privatisation (or, more precisely, "chairman of the committee for the management of state property of the Russian Federation"), that the planned privatisation involves a move "from an absolutely artificial to a normal economic system".

Privatisation means the assignment of existing socialised property to private owners. But, more fundamentally, it demands effective establishment and protection of private property in its three main aspects – the right to use property, the right to enjoy the income and the right to dispose of it.

The government hopes – over-optimistically, beyond a doubt – to achieve much of the transformation by the end of 1993.

For 1992, Mr Chubais has set himself three main tasks:

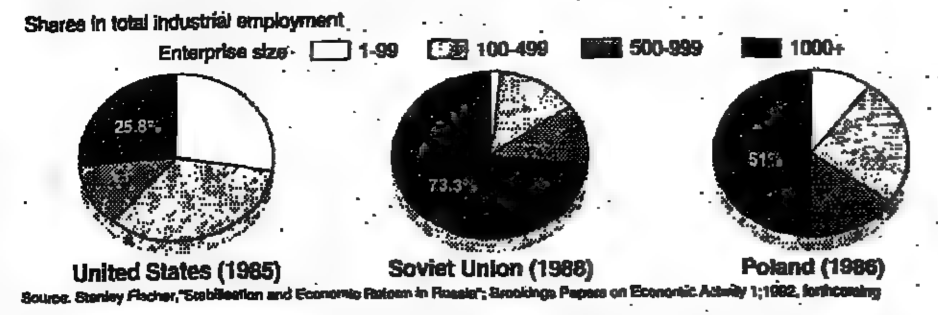
■ To make irreversible the privatisation of small enterprises, by auction or tender.

■ *To turn large enterprises* into joint stock companies, followed by at least partial privatisation of most of them in the course of 1993.

■ And to solve the problems involved in distributing privatisation vouchers to the population.

Size of industrial enterprises compared

Shares in total industrial employment



Source: Stanley Fischer, "Stabilisation and Economic Reform in Russia"; Brookings Papers on Economic Activity 1;1992, forthcoming

Experience in both Poland and Czechoslovakia suggest that rapid privatisation of small enterprise is both feasible and effective. Partly influenced by these successful examples, the decree of the president of the Russian Federation on privatisation, promulgated on 29 December 1991 (decree number 341) puts most small enterprises into the category of "obligatory privatisation".

However important it may be, even small privatisation has gone slowly so far. But a start has been made with a programme that the government hopes will prove a replicable model for the whole of Russia: that for mass small-scale privatisation in Nizhny Novgorod (previously Gorky), Russia's third largest city and traditionally its main trading centre.

This city was chosen by the government and the International Finance Corporation (an affiliate of the World Bank), because of the enthusiasm of the governor and mayor and because of the relatively low level of corruption in that city.

The intention in Nizhny Novgorod has been to sell off some 2,000 small businesses over the six months following the start of the programme in March. Privatisation is by auction, either of long-term leases or of outright ownership in the case of stand-alone premises. But *some product lines, notably* bread, will have to be kept by auctioned shops for a year. In addition, existing employees enjoy discounts in the auction.

The auction in Nizhny Novgorod has started successfully, argues the minister, if in a small way, with just 21 shops *sold at the first auction on 4* April. But a precedent has now been established, one that the rest of Russia will be required to follow. To that end, the government will use what Mr Chubais calls "traditional instruments, acceptable to the normal Russian mentality. We have mandatory tasks for each region, which show the proportion of enterprises that must be privatised by the end of this year."

As is shown in the chart, the December decree lays down such quotas in fine detail, to be acted upon by regional governors appointed by the president.

What will be the fate of recalcitrant governors? They will be dismissed, says Mr Chubais. But he is hopeful that this will be unnecessary, since "*normal bureaucrats don't* want to be the first, but also don't want to be the last. Each must now choose his own strategy, because the way is now clear. They know that if they are the last in the queue, there is a danger that they will be dismissed.

"This is not just a governmental position, but the position of President Yeltsin. We have enough instruments to force local authorities to do the job," he says – though, Mr Chubais admits, this may well not apply to the autonomous republics.

Resistance of local authorities is only a part of the problem. That of managers and workers is at least equally significant. The need to carry out privatisation speedily is why Larissa Piyasheva, adviser on privatisation to Gavriil Popov, the radical mayor of Moscow, *recommends selling property* at low prices to workers' collectives.

Strong objection to Ms Piyasheva's views comes from Yelena Kotova, until recently General Director of the Moscow State Property Office. For her, as for Mr Chubais, auctions of property are essential. Such ideological conflicts, along with the fierce political struggle between the mayor and the Moscow City Soviet (council), have led to a stalemate on privatisation in Moscow. Mr Chubais, for his

Foreigners will be allowed to play a part in privatisation. Russia expects that there will be a substantial capital inflow into the country

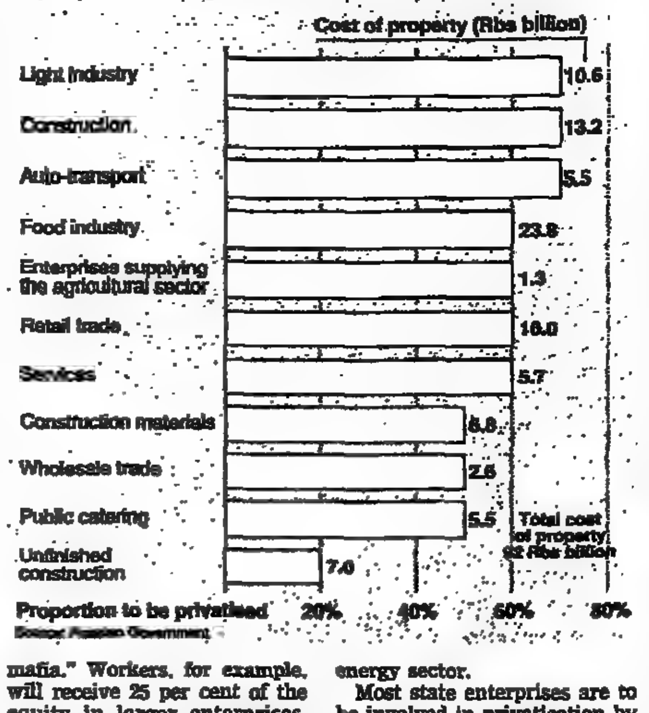
part, *reluctantly accepts* Moscow's autonomy as, in his words, "another republic."

But for Russia as a whole, he far prefers auctions: because merely granting enterprises to workers at a negligible price does not change their behaviour; because the revenue generated by privatisation – Rbs3bn in the first quarter of 1992, up from Rbs200m in the whole of last year – is itself valuable; because benefits from transfer of state property into private hands should be shared by the population as a whole, not just by workers; because experience in Nizhny Novgorod demonstrates that the objections of workers' collectives can be overcome, especially if many win in the open auctions, as they have in about a third of the cases; and because auctioning need be no slower than giving enterprises away.

The government believes that it is its duty to "find a balance between the interests of those inside and those outside the enterprises."

It intends, therefore, that in the privatisation of both small and large enterprises "there will be privileges for different social groups; it is very important that people do not feel this exercise is for the benefit of the old nomenclatura and the mafia." Workers, for example, will receive 25 per cent of the equity in larger enterprises, and managers 5 per cent, but both in the form of non-voting shares free of charge.

Targets for privatisation in 1992



Source: Russian Government

Workers will also have the opportunity to purchase an *additional 10 per cent of shares* in their enterprise at a discount of 30 per cent. For similar political reasons, privatisation vouchers will be distributed, not later than autumn this year, says the minister, with the precise details of the scheme to be *decided by mid-May.*

Meanwhile, for Russians who can afford to pay – of whom a part will, indeed, be drawn from those who had been high up in the previous power structure, or who had acquired their money illegally – there will be an open auction of shares, without any privileges.

All this assumes that the government can halt, or at least contain the pace of "spontaneous privatisation", whereby managers of enterprises and local bosses are diverting the assets of state enterprises into their own hands. Mr Chubais is optimistic – "we have had no legal basis for privatisation until now: all privatisation has been semi-legal. The only way to curb spontaneous privatisation is to introduce a normal legal structure," he says.

Now that the west has made a commitment to provide $24bn to Russia, Mr Chubais also expects that there will be a substantial capital inflow into the country. Foreigners will, therefore, be allowed to play a part in privatisation. But the minister says that there should be no special exchange rate for the rouble, to be used when buying shares, as was formerly mooted.

Instead, Mr Chubais says that the Government intends to "multiply the book value of the property (when sold to foreigners) by some co-efficient. There could be special auctions only for foreigners – but this is still to be decided." A special privatisation programme is also being prepared in the energy sector.

Most state enterprises are to be involved in privatisation by the end of 1993, though the plans for next year are far from firm – "there will be resistance and so we must be quite flexible," says Mr Chubais. *Flexibility will certainly be needed.*

An immediate problem is the financial straits to which attempted stabilisation has already reduced many of these enterprises, a problem the minister regards as "serious, but temporary." Where enterprises *are bankrupt for technical or* structural reasons, privatisation will be combined with attempts to make enterprises healthier, says Mr Chubais, perhaps through use of foreign credits.

Nobody can have any doubt about the scale of the obstacles – social, political and economic – to the property transformation that the government is intending. The question of privatisation of land, *for example*, is still highly sensitive, as was shown in the debates in the Congress of People's Deputies.

Privatisation of large enterprises raises still more difficult questions.

Will the government be able to bring these enterprises under effective state ownership once more, this being a necessary condition for their privatisation?

Can it implement the kind of voucher system that has so far defeated the Poles?

Will owners and managers be found who are capable of steering the giant enterprises of the former Soviet economy within a competitive market *economy?*

Can the government make bankruptcy a credible sanction against their failure?

Last, but far from least, can the government avoid the need for comprehensive prior restructuring of unviable enterprises and, if *not*, does it *have the resources*, both human and financial, to bring such restructuring about?

Privatisation is, it is now clear, no magic wand. The Polish precedent shows that Russia will be struggling with the industrial legacy of the Soviet state for years, if not decades. *Nevertheless*, if the government were to achieve even a small part of what it now intends, its counter-revolution should prove irreversible.

Profile of a young Russian entrepreneur

Champion of free enterprise

A PHYSICS graduate, Mr Karim Arginbayev, 28, used to dream of devoting his life to science. As it happens, he turned out to be more suited to making money in the new Russia.

Occupying a little office leased from a scientific institute in Siberia, Karim Arginbayev has all the qualities it takes to make it as an entrepreneur in the former Soviet Union: brains, contacts, daring and a willingness to get his hands dirty.

His path to success is typical of a first generation of *biznesmyeny* (businessmen) to grow up in the rubble of Communism but who are still perceived by the people at large as vile *spekulyanty* (speculators).

The day I met him he was taking a second-hand Japanese car to a bank manager as a present for lending him Rbs15m at 30 per cent interest for nine months. With monthly inflation estimated at 40 per cent, such a negative interest rate was indeed worth such a gift.

Karim's career started just three years ago when he decided, upon finishing his military service, to take advantage of a new law allowing the establisment of co-operatives.

Thanks to the new legislation, Karim was able to do legally what blackmarketeers under the late Soviet leader Leonid Brezhnev did illegally. He set up a co-operative to bottle *ginseng* lotion made in his native Kazakhstan. But "because it takes time to get money back on productive investment," he also opened a small firm called ARNA for lucrative trading in goods in short supply.

His business plan for ARNA, of which he designated himself chairman with a board of directors, was breath-takingly simple.

On the strength of a contract he concluded to buy imported audiocassettes in the far eastern port of Vladivostok, he persuaded a friendly bank manager to lend him Rbs1m for three months at 15 per cent. He put Rbs50,000 into ARNA as its starting capital and bought a container full of audio-cassettes.

He then sold the cassettes, bought himself a car, a house, and a dacha, and returned the money to the bank. He then borrowed a further Rbs8m from another bank, hired some people to work for him, bought a second car and...a new batch of audio-cassetttes.

Having repeated this process a few more times, but not returned the subsequent bank loans, he now has outstanding debts of Rbs28m.

While other entrepreneurs laundered Communist party funds or stole state property to get started, Karim accumulated his capital on the back of the primitive Soviet state banking system. Each loan was rewarded by a present for the bank manager – usually an audio-cassette player or a microwave oven – without which he would have been told that credit was either not available or only offered for a triple-digit rate of interest.

The beauty of the whole scheme now is that should be default, the banks will not be able to seize the cars and dacha because the money was lent to ARNA as a limited company.

On the production side, Karim has used some of the money to set up a small factory on leased premises at the state-owned Botanical Gardens, just outside the Novosibirsk *akademgorodok* (academic township). In return for his co-operation, the Botanical Gardens director has been given shares in the enterprise, which produces *ginseng* essence to revitalise tired Siberian miners.

From Karim's viewpoint, he is simply spreading wealth and benefitting from a vacuum of effective laws to regulate business activity.

From a young age, he was well-disposed towards free enterprise and capitalism – "my grandfather was shot by the Communists; my father brought me up not to like them."

Having attended a special school for children with scientific talent, the affable young man quickly decided after univerity and a year working at the Institute of Inorganic Chemistry that science was not for him. He preferred "working with people."

His next project is to set up investment trusts for Russian capitalists to fund research by Russian scientists into new civilian-oriented technology – "*otherwise we will pay for this in future by relying on foreign brains.*"

Leyla Boulton

The regions and peoples within Russia face three massive interlocking sets of problems, explains John Lloyd

A new balance must be struck

Picture by Tony Andrews

Many memories: like millions of Russians, this elderly man in Red Square, Moscow, is struggling to come to terms with changes at all levels of society

DEPRIVED of an empire in the space of six years, Russia now struggles to control her own territorial space. Reform here has marched at a much slower space than in the economy, or in such civil freedoms as speech and travel: naturally, for here is the most intricate knot which the new state must unravel.

It faces three massive interlocking *sets of problems. First*, the Russian government must find a new relationship with the peoples within Russia and with the authorities of the administrative/national divisions which have been *bequeathed it by the Soviet system.*

These divisions – autonomous republics, districts and regions – were formally "autonomous:" actually, they were strictly subordinate to a *centralised state and party.*

In the time of collapse of these institutions over 1990-91, the republican and local administrations took powers into their own hands – indeed, they were explicitly encouraged to do so by Mr Boris Yeltsin, who later became President of Russia with a *necessarily quite different* agenda.

Now, a new balance must be struck: one which allows devolution of government to effective administrative authorities while retaining – or rather, winning back – effective power for the centre.

A Federation Treaty, signed in April of this year with much celebration, was advertised as doing just that. In fact, it leaves out of its scope two important republics, Tatarstan and Chechen-Ingushetia: even more importantly, those republics within the treaty have in many cases struck unpublicised deals with the central government which give them large control over, particularly, exports – and which undercut the ostensible rule of law with a reversion to the past practice of backstairs arrangements.

Secondly, and linked to the first, is the necessity to make the central writ run everywhere. The dissolution of the centralised state has left, not market relations, but a legislative and economic free-for-all in which all seek to maximise their position.

Regions, districts, cities, even enterprises seek to escape government control, especially taxes. Where they can, they look abroad for export contracts, in order to obtain hard currency.

The buying, selling and grabbing of property, nominally under state control, goes on relatively freely, usually without effective intervention or hindrance.

The corruption of public authorities at every level, against which the *Government* and the parliament constantly rail, makes the observance of central power not a matter of law, but at best of negotiation.

Thirdly, Russia must come to terms with the fact that millions of Russians now live in "foreign" countries which they had been accustomed to regarding, at least in part, as extensions of their homeland.

In Ukraine, Kazakhstan, the Baltic States, the Caucasus and in Central Asia, men and women who had settled in areas often colonised by Russia *for centuries find themselves* in the vertiginous and poignant position of having to choose a nationality, and all that goes with it – language, culture, education, loyalty.

It is as yet ill-equipped to deal with these issues. Most importantly, it has no reform constitution. The Congress of Russian *Peoples Deputies* which met for much of April had before it several competing drafts of a new Russian Constitution – but refused to consider any of them.

The state thus still operates on the basis of a patched up Soviet-era constitution – which still, bizarrely, acknowledges *the existence of the* Soviet Union, thus giving the communists the opening to argue that the destruction of the Union was unconstitutional.

The official draft of the constitution assumes the existing territorial divisions, and seeks to apportion powers between them and the central government: only the draft of the constitution prepared by Mr Anatoly Sobchak, the Mayor of St Petersburg, seeks to replace these divisions with new administrative areas – on the *basis that the old are hopelessly* enmired in the structures of the old regime and cannot be "democratised" simply by being shifted under the aegis of a presidential, or for that matter a parliamentary, republic.

The creation of the Commonwealth of Independent States *in December last year – even* while the Soviet Union still had a formal, legal existence – was designed in Russian minds to provide a framework within which some things would continue as before – including a common citizenship.

The inability of the CIS to provide such a framework, or *so far to substantially mitigate* the tensions between communities within its territories, faces the Russian state with the necessity of finding for its "expatriates" a modus vivendi *with the states in which they* are now located. This has yet to appear.

Three critical areas will point the way. In the three small Baltic states of Estonia, Latvia and Lithuania live nearly 2m Russians.

All three of these states have set out constitutions which, at the minimum, would force the Russians who stay to learn the local language (which many had never tried to master, living as they often do in Russophone communities) in order to hold a job, and would often disqualify recent entrants from citizenship.

Discussions between the *Russian and the Baltic* governments on these issues, and on the removal of the former Soviet army from these states' territories, have been sporadic and slow: constant expressions of frustration are made on both sides.

Second, in the TransDnester area of Moldiova, a strip of land between the *Dnester* River and Ukraine, live a majority of Russians and Ukrainias: the former have been especially active in proclaiming the area a republic, and have conducted a sporadic war with the Moldovan militia.

The desire of the Russian government to seek a federal *solution to the issue meets the* so far uncompromising demand on the part of the Moldovan authorities that Moldova be a unitary state – while powerful elements in or near the government raise the possibility of a future unification with Romania, to whose people the Moldovans are ethnic kin.

Third, the *Crimea*, in the south of Ukraine, is soon to hold a referendum on independence with the option of an alliance with Russia.

Crimea, Russian territory *until capriciously given to* Ukraine in 1954 by Mr Nikita Kruschev, has a majority of Russians: it is also home to the Black Sea Fleet, the bulk of which Russia claims.

The return of Crimea is a popular cause in Russia: its loss cannot be tolerated by the Ukrainian government. A cri*sis over its status* could threaten the security of the very large Russian community in Eastern Ukraine, until now peacefully integrated with the Ukrainian population.

These are the national challenges which now face Russia: all are, of course, susceptible to compromise and to negotiation, and in most cases there are forums and mechanisms in which such negotiations can take place, or actually are taking place. But their success depends on the ability of the governments in question to be able to deliver, and to survive, compromise: and in nearly *every case*, the post-Communist governments have come to power under the banner of a resurgent nationalism, often at least covertly strongly anti-Russian.

At the same time, as the recent Congress showed, both the "nationalist" and the "democratic" forces in Russia regard the protection of Russian interests as the fundamental base of their politics, the neglect of which would threaten their fragile cohesion and popularity.

The largest element of hope is that the present Russian government is headed by leaders who appear ready to go to the political limits to avoid the charge of acting in an "imperialist" fashion. There has been no official support for the TransDnestr rebels: no official agitation among the Baltic Russians.

In a recent interview, Mr Andrei Kozyrev, the Russian *foreign minister*, made clear that in every one of these crucial theatres, he was open to compromise and to a settlement which answered the criteria of human rights, not of narrow Russian national interests.

Internally, the flashpoints of Tatarstan and Chechen Ingushetia have not been confronted with military power but finessed – put into negotiating processes with the clear statement that seperate arrangements should govern the relationship between the Russian authorities and these states.

In both these cases, there are signs that internal dissent to the present governments might take a "pro-Russian" form – or at least, propose a solution in which the clear dependence of both on the Russian market and infrastructure would find a correlative in the political level. The example of Georgia – where a violently anti-Russian nationalist government was overthrown in favour of one led by Mr Eduard Shevardnadze, the former Soviet Foreign Minister, which seeks rational accommodation, is encouraging.

But the problems cannot be forever finessed. To withstand the further, and deeper shocks which economic reform promises all of the states of the former Soviet Union, central power must be seen to be both effective and undiscriminating.

The law must be seen to be the law from St Petersburg in the north west to Vladivostok in the south east. The construction of a law-governed state, the *as-yet* unrealised project of national independence, is a its earliest, most fragile stage.

All change at the Kremlin: most of the key ministers are in their mid-30s, the youngest cabinet in Russian history

THE NEW GOVERNMENT

Something of a miracle

The new team's unity has been its main strength in surviving the murderous world of Russian politics, reports LEYLA BOULTON

THAT A COUNTRY as conservative and closed as Russia should have such a bright and westward-looking government is really something of a miracle.

It is a sign of Russia's desperate situation that the team of economic reformers led by Mr Yegor Gaidar, the 36-year-old first deputy prime minister, has come to power. With most of the key ministers in their mid-30s, the youngest cabinet in Russian history is being entrusted with the momentous task of switching the country to a market economy after 75 years of state planning.

Six months on, they are still in office because the older generation, discredited by the failure of the socialist experiment and five years of tentative economic reform under President Mikhail Gorbachev, has failed to come up with an alternative.

Apart from a package of go-it-alone market reforms which would bypass disagreement among republics, Mr Gaidar, an academic with no experience of government, was able to sell President Boris Yeltsin a ready made government team – made up of like-minded economists who also happened to be his friends.

The team's roots go back to the 1980s, when they held unofficial seminars on market economics at a time when such ideas were just beginning to gain currency in very limited circles. Mr Gaidar, an exceptionally bright, suave and persuasive figure, very soon emerged as their leader, his time as economics editor of the Kommunist party journal in the late 1980s giving him the opportunity to publish pro-market views.

The 36-year-old privatisation minister, Mr Anatoly Chubais, a graduate from Leningrad's Economics Institute, had been friends with Mr Gaidar ever since they began clandestine studies of market economics together in 1979.

The Latvian-born Mr Peter Aven, the foreign trade minister, who is also 36, and the only non-Russian in the cabinet was in Vienna researching economic reforms in eastern Europe before he came back to Moscow.

Mr Alexandr Shokhin, who used to advise Mr Eduard Shevardnadze when he was still Soviet foreign minister, acted as the stalking horse for the Gaidar team to take over. He was labour minister in the previous back-biting Yeltsin administration.

Although only half a dozen are ministers, there are several other allies scattered round in the top echelons of the administration. There are so many qualified economists in the Gaidar team that there will be very few economists left to take over should they fail.

Mr Konstantin Kagalovsky, who is responsible for negotiation with international organisations, provided an international connection for the group when he set up a Market Institute sponsored by the London-based Institute of Economic Affairs, the Thatcherite think-tank.

Like their predecessors in eastern Europe – Poland's Mr Leszek Balcerowicz and Vaclav Klaus in Czechoslovakia – the Gaidar team is more free-market than many of their foreign advisers. Their common ideological front – allergy to the old system – translates into a mix of orthodox free market economics and admiration for Margaret Thatcher's strength of character.

This is tempered by political realism – about what it is possible to get away with in Russia – as witnessed by their decision last month to loosen their tight credit policy at the risk of triggering hyperinflation.

Apart from the support of Mr Yeltsin, the team's unity has proved its main strength in surviving the murderous world of Russian politics. In the absence of strong parties, Russian politics, usually depressingly, and dangerously, boils down to petty jealousies and power struggles among personalities, all jockeying, in true Soviet fashion, for the top leader's seat.

Mr Gaidar and his critics started off by not expecting him to last long in office. But having matured fast as a politician since taking office in October, and then putting up a ferocious fight for his reforms in parliament, Mr Gaidar emerged from last month's bruising Congress of People's Deputies with a new self-assurance.

Although disarrayed by their trouncing, many of his pro-market opponents still see themselves as a second tier of pro-market reformers, waiting in the wings to prevent a fascist Communist takeover should the government collapse under a wave of spontaneous popular anger.

"We want more gradual reform more focused on the population, because Russia is used to living slowly but is used to equality, explained Mr Oleg Plotnkov, a young pro-market member of the Smena ("Change of Guard") parliamentary faction which wants more power for parliament.

Although superior to anything else on offer so far – "we are often accused of being arrogant," says one Gaidar aide, "but perhaps that arrogance is justified" – the government is by no means all sweetness and light.

Mr Grigory Yavlinsky, the chief Soviet economic strategist, who struggled between the August coup and the collapse of the Soviet Union to build some kind of economic union, accuses them of outright opportunism. He proudly describes a stormy scene in his office late last year, when he turned down a job offer from Mr Gaidar and accused him of tailoring his go-it-alone Russian economic reforms to suit the new isolationist mood of the country's political masters.

Their appeal to the West as normal, articulate human beings eschewing the old traditions of Soviet bureaucrats, does not necessarily translate into affection for them within the Commonwealth.

The team's self-confidence – which took the form of bypassing parliament and offending people like the central bank chairman – has also irritated many older Yeltsin supporters who have been shunted out of the president's "in" crowd.

Ms Bella Kurkova, an influential St Petersburg journalist and deputy in her 50s, recently complained on her own TV programme that the government was inaccessible. What she really meant to say, as she commiserated with St Petersburg mayor, Mr Anatoly Sobchak, was that they were inaccessible to them.

But one intelligent thing this team has done is to hire, as government advisers, outside experts who might otherwise criticise it, or whose prestige enhances their image – "all you have to do is criticise the governmen to get a job offer," joked Mikhail Leontiev, economics correspondent for Nezavisimaya (Independent) newspaper, who claims he turned down such a proposition.

Mr Yuri Boldyrev, a rising young star of Russian politics who made a name for himself pushing for the split of the Communist party, was recently appointed head of the government inspectorate. Mr Mikhail Gurtovoi, a top investigative journalist, is Mr Gaidar's adviser on fighting corruption.

They have also used foreign advisers – including economists such as Jeffrey Sachs whose support has even extended to helping one minister give his first foreign press interview – to drum up support and sympathy for their reforms in the West.

The $24bn aid package – granted by western governments in time to support them at the Congress of People's deputies – has become another argument for them to stay in power. But as President Yeltsin demonstrated when he said Russia would not be taking orders from the International Monetary Fund, the government – which openly says it would like its central bank to be run by the IMF – has to be careful to avoid accusations of being too subservient to the West.

Many Russians believe the mafia has simply changed its colours

Battle against corruption

"YES, a clever man cannot but be a cheat," wrote Alexander Griboyedov, the 19th century Russian writer, in the play, Woe from Wit.

Throughout the centuries, Russia has been notoriously corrupt. But racketeering, influence-peddling and embezzlement have come to play such a large role in everyday life that the word mafia is now one of the most frequently-used words in the Russian language, writes Leyla Boulton.

Another peculiarity of life in the former Soviet Union is that the word as used in Russian has no precise analogy anywhere else in the world. It describes not a group of "godfathers" (although there are such figures, too) but an all-embracing system of crooked practice created by seven decades of Communist rule.

Its foundations: artificially low fixed prices, shortages, total state-ownership of the economy. Its multiple actors: a haphazard but wide-reaching assortment of state or party functionaries, gangsters, entrepreneurs, and petty employees.

"Countries which are called civilised are far from rid of the mafia, but at least they are based on democratic principles which are opposed to the mafia," says Mr Arkady Vaksberg, the country's leading expert on the subject. "A system which is fundamentally rotten cannot fight against itself."

Now that the new Russian government is pursuing bold market reforms to dismantle the old economic system, there is some hope that society can defeat the mafia because its root causes are finally being tackled. Whereas before most forms of business activity could be described as mafia because they were illegal, their unbanning removes the justification for at least some of the dishonesty.

However, a weak federal administration, a poorly-developed legal system, and the continued state ownership of most of the economy mean that corruption is thriving as never before. Resistance from old vested interests to the government's privatisation and demonopolisation efforts is also an obstacle to tackling the mafia's root causes.

At stake is the credibility of market reforms which are supposed to benefit all, and not just those who know how to use the prevailing system to enrich themselves.

Today, and not without reason, the Russian public believes the mafia has simply changed its colours. A perception that the new rulers are not only impoverishing people with price liberalisation but may be as corrupt as their Communist predecessors, could well sink the whole

Vice president Alexander Rutskoi: threats and accusations

reform process. The main reason many ordinary people voted for new "democratic" politicians was hope for a more just system.

But mafiosnost (literally "mafia-ness") has simply adjusted to new circumstances – a government official sells off state assets at less then their worth in a private transaction disguised as "privatisation."

Prices have been freed but it is still profitable for shop assistants to hoard goods on sale in the shops in anticipation of further price rises. Communist officials have either taken new jobs in the administration or have set up companies with laundered party money.

Poorly-paid civil servants fearful for their future as a result of the political and economic changes have even more incentive to steal than before. Instead of transferring assets from the state to the people, different sets of government officials are fighting each other for control of what they see as lucrative sources of personal wealth.

Foreign businessmen privately complain that they are being asked to pay more bribes even though no company will publicly admit to ever paying any bribes. Foreign companies which do pay bribes are disturbed by the fact that it is no longer clear whom they have to pay to obtain results.

Those which do not pay bribes continue to complain they lose out to other companies which do. The final straw is that whatever morality or discipline which existed under the old Communist system has fallen by the wayside in today's chaotic free for all.

Mr Mikhail Gurtovoi, head of the government's new anti-corruption service, claims that even the attempt by last month's conservative Congress of People's Deputies to remove the government of young economic reformers was a rear-guard mafia action to sabotage their reforms.

The reason he agreed to join this government, he says, is that it "owes nothing to nobody" – unlike the previous administration which he claims relied on support from shadowy entrepreneurs to defeat the old Communist nomenklatura.

Mr Yuri Boldyrev, head of President Yeltsin's government inspectorate, argues that "what is happening in our country now is not even a battle between Communists and democrats, it is a struggle between different power groups in a vacuum of any rules."

While Russia searches for new rules, officials from top down are apparently free to do whatever they want. The older generation is particularly used to disposing of state property as its own.

One high-level example was provided by Vice-President Alexander Rutskoi, who is himself constantly accusing the government of corruption but who last month rang up the chairman of the central bank, Mr Georgy Matiukhin, to demand Rbs7bn credit for the Renaissance Bank.

This commercial bank, which has personal links to Rutskoi, is supposed to provide funds for private farmers – a noble enough cause which the vice-president is supposed to promote. The problem is that when Mr Matiukhin refused to grant the funds, the vice-president threatened to have him removed within a week.

Mr Leonid Zapalsky, former first deputy economics minister last December signed an order one month after the ministry's dissolution, giving valuable export licences for 10m tonnes of oil and 10m tonnes of oil products to a private "charity."

He also transferred computers and cars to a joint-venture called "Russian-Japanese University."

The assets are now being returned after a government crackdown. But, somewhat inexplicably, charges are not being pressed by the state prosecutor.

Equally revealing from the readiness of many Russians to admit to crooked dealings is the fact that few see that corruption as a crime. Even fewer understand the notion of conflicts of interest.

A senior official at the state oil company of Tatarstan, a republic within Russia which is pressing for independence, admitted in conversation to taking a $20,000 bribe from a foreign company in helping it work out projects for investing in his republic.

"I've got expenses to cover," he explained, saying his Rbs4,000 ($40) monthly salary was not enough to survive on.

A Soviet government official who was laid off in December when the country collapsed told me about how he had received Rbs20m from Soviet finance ministry officials who

Continued on page 8

Top crime-fighter's new approach

MR MIKHAIL GURTOVOI, who is in charge of fighting state corruption and financial fiddles, is refreshingly above suspicion, writes Leyla Boulton.

But this former journalist for Moscow News, who used to expose corruption scandals on paper, sometimes feels that despite the trappings of power, he is fighting a losing battle.

Appointed in January as Mr Yegor Gaidar's adviser on dealing with one of the scourges of Russian life, Mr Gurtovoi says he has changed his mind about how to deal with the problem.

Rather than perfecting Russia's legislation and law enforcement, he now believes it is essential to catch as many crooks as possible – "like plugging holes in a ship so it does not sink" – while providing officials with incentives not to steal.

Since he and his team – which include top investigators from the Soviet anti-mafia days – moved into offices in the former Gosplan headquarters in Moscow, they have been able to stop a few cases of embezzlement, as well as a big financial swindle involving the laundering of illegally-earned funds.

But another headache, apart from the extent of the corruption, is inertia in the rest of the system. After he reversed an attempt by Mr Leonid Zapalsky, a former deputy economics minister, to give out valuable oil export licences to a charity while he was supposed to be winding up the economics ministry, the case has not been pursued by the state prosecutor.

Part of the problem, he says, is that a lot of the corruption is tied to the system of patronage under which the previous generation of Russian politicians relied on new entrepreneurs for financial support to defeat the old Communists – "for the mafia, supporting upcoming politicians was like putting money on horses."

He says that while President Yeltsin had enough popular support to get elected without paying bribes, the same is not the case for all those in power before the Russian leader appointed a new cabinet of economic reformers.

Since a lot of the cases of big-time corruption involve getting money from foreigners, he would also like to hear from foreign businessmen who have specific cases to complain about.

Is this naive behaviour, ask the cynics. Maybe, but it is Russia's only chance to maintain some credibility now that market reforms under way have finally begun removing some of the justification for cheating in the past.

Mikhail Gurtovoi's address: 6, Okhotny Ryad, Moscow.

Farmers face formidable obstacles and agricultural machinery is prohibitively expensive, reports **Leyla Boulton**

Food supplies: the biggest threat to political stability

"THERE'S going to be a war here," declared Mr Sergei Boyakov, a fighter on the front line of Russia's battle to switch agriculture from Communism to capitalism.

One of Russia's fledgling *fyermers* (private farmers), Mr Boyakov, 41, is the proud owner of 228 hectares of land in Russia's rich southern Penza region.

He has already made more than a million roubles raising cattle for meat and dairy production. But for months, his biggest headache has been trying to persuade local state farmers to keep their cows off his pasture.

"I cleared this land and planted grass on it, and now they bring their cows to graze on it. I won't have it," he fumes.

Despairing of a negotiated settlement, he is going to hire

President Boris Yeltsin has ordered the accelerated distribution of land to private peasants

police to guard his fields. But he fears the quarrel will end in bloodshed.

Mr Boyakov's battle with members of the "Shining Path" state farm goes to the heart of the difficulties of reforming Russian agriculture, six decades after Stalin herded peasants into collective and state farms.

After millions of peasants died in resisting collectivisation, their descendents are now too used to being paid by the month, with fixed holidays, salaries and social benefits, to go it alone. Or at least they are waiting to see what happens to those who do.

This returns Russia roughly to where it was at the beginning of this century, when Pyotr Stolypin, the reformist tsarist premier, started land reforms to break up the prevailing communal system and develop a class of private farmers. Before they had time to make real headway, the reforms were interrupted by World War One, and then buried by the Bolsheviks. As a result, a country which before 1917 was a leading exporter of grain, is today one of the world's biggest importers.

Today, the collapse of food supplies, which helped trigger the 1917 revolution, is again the biggest threat to the country's political stability – raising fears of a *golodny bunt* (hunger revolt) this winter. It is with this fear in mind that western governments, to the delight of their own farmers, are likely to continue subsidising grain exports to Russia for some time to come.

President Boris Yeltsin has ordered the accelerated distribution of land to private peasants, and the "re-organisation" of the *kolhozy* (collective farms) and *sovhozy* (state farms) which account for the bulk of agricultural production. This includes cutting off subsidies to loss-making state farms.

But it will still take at least a few years before Russia is able to begin meeting its own needs. Practice shows that the state is still unable to support private farmers on any significant scale, even though their number doubled to 100,000 between January and April of this year.

Meanwhile, the re-organisation of the state sector on market principles – which would have the benefit of maintaining the economies of scale of large scale farming – is so far too superficial to make any difference to its effectiveness.

In Mr Boyakov's Pachelma district for instance, local authorities said they were planning to introduce the unpromising concept of "private collective property."

On one farm which had been reorganised in this way, peasants said the main benefit was that lazy people could be expelled – but they had a very hazy idea of what it meant to hold shares in their farm.

Russian soldiers lift potatoes at a farm near Chunkovo, 38 kms outside Moscow

On another state farm, the director helplessly complained that unless he received more money from the state and the government maintained subsidies on energy supplies, he would sink.

In one small sign, however, that new financial pressures may be having some positive impact on state farmers, he also let slip that he planned to raise some cash to pay salaries by selling some produce to a local fair the following day.

But even if some progress is made at farm-level, time and investment are also needed to rectify the structural problems which account for the loss of a third of whatever is produced.

These include an inefficient state-dominated transport system, a monopolistic trade system, and a dire shortage of storage and processing facilities. Agricultural machinery is also prohibitively expensive because of a lack of competition among the state enterprises which produce it.

In Pachelma district, both state and private farmers complained they had no facilities to pasteurise and refrigerate fresh milk, giving them no alternative but to turn most of it into butter.

It is not difficult to see why milk is still so hard to come by in Russian cities. Mr Boyakov's main complaint is the absence of a developed wholesale market which often forces peasants to use shady intermediaries to find buyers.

"They rake off huge percentages and call it marketing," he jokes bitterly.

Another brake on reform is the fact private property in the strict sense of the word is not yet allowed because of the Russian parliament's refusal to endorse the sale and purchase of land. Land given to peasants by local authorities can be resold only after ten years.

Given deep psychological resistance to change, it is hardly surprising that two signs put up by Mr Boyakov proclaiming "Private Property" have been torn down over the past year.

The first, made of wood, was chopped down. The second, made of steel, was ripped out of the ground.

The principle is indeed difficult to comprehend for peasants used to being looked after by a state on land which was supposed to belong to everybody and yet belonged to nobody. Running deep in their psychology is a preference that all should be poor together, rather than allow the more enterprising to be better off.

Wearing a neat jeans outfit and trainers, Mr Boyakov looks every bit the part of the "*kulak*" (the historical word for rich peasant) as he takes on one of his "enemies" – Volodya, a state peasant with a crudely stitched scar on his cheek and a tattered cloth jacket falling off his shoulders.

Mr Boyakov reiterates an offer to lend his tractors and equipment for them to clear pasture land, while Volodya looks unconvinced and questions his right to the land in the first place. Another headache is theft of his equipment by neighbours.

Mr Sergei Papshev, the former local Communist party chief turned head of the local administration, says he is doing his best to help private farmers. But he claims his efforts are hampered by "the unpreparedness of a material basis" for private agriculture. Mr Vladimir Yeskin, director of Valovaisky state farm, explained why he himself would not dare strike it out on his own.

"Where would I get fuel and tractors from?

"Where is the guarantee people won't burn my grain or poison my cattle?

"Who will stop drunks coming to my farm and doing whatever they want? There is no protection from the law."

Despite all the obstacles, it is clear that farmers like Mr Boyakov, an engineer in a big city before he moved to the countryside, will survive. But as he himself admits, he is really the *exception who confirms the rule.*

"I succeeded because I knew how to manage, because I could express myself, because I could argue my case, because I knew how to ask for things, and whom to give money to and who not to give money," admits Mr Boyakov. "Only this has saved me. But it is much more difficult for peasants who have lived in the countryside all their lives because they don't even know the basics of doing business in this country."

Since he received land in December 1990, Pachelma district has registered 57 private farmers, who have got under plough 2718 hectares of arable land – a modest start in comparison to the 80,000 hectares held by the district's 14 state farms. Because it is in his interest to have allies, Mr Boyakov is now trying to help six brothers make a success of their private farm near the Valovaisky *sovhoz*.

But the obstacles may prove insurmountable for the weaker farmers who do not even know where to turn for help.

Three months ago, Ms Galina Knitchkova, a former nurse turned "*fyermer*" in the Smolensk region west of Moscow,

Difficulties may prove insurmountable for the weaker farmers who do not even know where to turn for help

could look to the future with optimism.

She had bought machinery, built a house, and been given both land and soft loans by the local authorities. Since then, her house has been burnt down and she has run out of money to buy seeds.

Unless she is able to raise Rbs131,000 by the end of the month, she will miss the sowing season, and the chance to begin repaying her bank loans. If she fails, all the soft loans spent on her so far by the state will simply have been wasted, and a dream of a lifetime shattered beyond repair.

The industry needs investment that the government does not possess, reports **John Lloyd**

Oil: the state's most prized resource

OIL remains the most prized and precious resource of the Russian state: the one which gives this, of all the states of the former union, the best long chances of success – if the industry, now failing, can be renewed and revived.

In the short-term, the industry presents a grim picture. The London-based Centre of Global Energy studies forecast earlier this month that the 515m tonnes of production last year from all the former Union republics – dominated by Russia, but with significant production from Azerbaijan and Kazakhstan – would fall to between 460-470m tonnes in 1992.

Separate figures from the World Energy Analysis and Forecasting Group earlier this year show Russia down from a level of 462m tonnes this year to between 396-412m this. At the same time, demand in these states would remain high – at about 420-470m tonnes in spite of falling production – because of difficulties in the supply of other energy sources, notably coal and nuclear electric power.

On this analysis, it is easy to see states formerly oil-rich realising a scenario only last year dismissed as absurd: that they become oil importers in the first half of the 1990s.

To avoid this, the industry needs investment the government does not have, technology the country does not make and management and exploitation skills the industry has not developed. Logic thus points to extensive foreign involvement: as yet, there have been only tentative engagements which give mixed signals.

■ After a prolonged and confusing struggle between different levels of administration, the government awarded a contract for the feasibility study of offshore oil reserves off Sakhalin, in the far east, to the 3M consortium of Mitsui(Japan), McDermott and Marathon Oil, (both US). The award of the feasibility study would normally be expected to result in a substantive exploitation contract – but while this is world practice, there is no precedent in Russia.

■ The French company, Elf Aquitaine, has signed two exploration deals – one with Kazakhstan and one with Russia for exploration in the Saratov Volgograd area. In doing so, it has put itself ahead of the rest of the foreign companies, who still worry about legislation, tax rates and political instability: Elf executives admit to the risk, but decided to plunge.

These worries are real and intense. They have not stopped most of the oil majors, and many of the minors and oil service companies, beating paths to the former Soviet Union: but they have, as yet, stopped substantial deals.

In particular, the recently imposed export tax of 26 per cent a tonne is seen as a big deterrent, and is the particular object of lobbying on the part of the companies. Mr George Reese, the managing partner of consultants Ernst and Young in Moscow, says that "without the tax, you would have had a dozen major deals by now."

The various authorities still active in the industry compounds the problem. A new Ministry of Energy, under Mr

Logic points to extensive foreign involvement in Russia's oil industry, but as yet, there have been only tentative engagements which give mixed signals

Vladimir Lopukhin, is thrashing out legislation: but the state oil company, Rosneftigas, continues to operate as a kind of holding company for the state oil corporations: while the local authorities, especially the republican authorities, like those in Tatarstan and Chechen Ingushetia (both of which, significantly, have declared "independence" from Russia), insist on oversight at least and more often on the right to choose and to veto.

Rosneftigas has taken advice from the Daiwa Bank and from Bankers Trust on how to restructure itself: it remains, however, an anomaly, poised awkwardly between the companies which fund it and the ministry which duplicates many of its functions. Mr Reinhold Heus, head of Daiwa's energy division, says that "there is now a debate on Rosneftigas' future – it may become a state oil and gas comopany, as we have in the west; it may provide central services for the companies on the purchase and supply side; it may become more of an association. It must justify its existence to the companies: if it doesn't provide a service, then there would be serious questions asked about its existence."

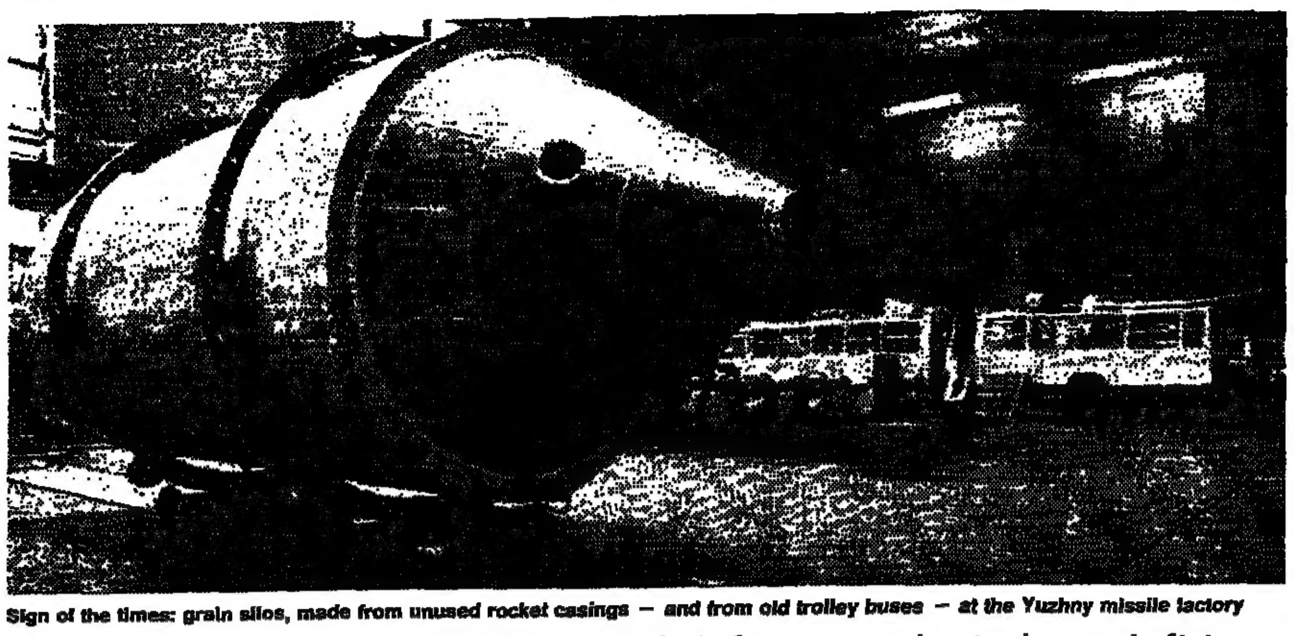
There is now legislation passed on underground resources, and a licensing law is in draft. The latter puts foreign and Russian companies on an equal basis, and proposes an auction system for licensing rights: as in many western countries, the companies cannot buy the wells outright. Further legislation which, it is hoped, will flesh out the details of licensing procedures and pipeline transportation, is now being prepared with the aid of western experts under Professor George Hardy, former Dean of the Law Faculty at Houston University.

Domestically, the government has allowed the producers to sell up to 40 per cent of their production at free prices through the oil exchanges (it can be exported only under licence): and it still plans to "free" prices (up to about one third of world levels) by the middle of this year, a move expected to add 50-70 per cent on all prices.

Mr Lopukhin says that he wants to get "vertical integration" in the industry to bring together the former conglomerates organised territorially: once that is effected, the companies will be transformed into joint stock corporations and shares will be issued. Already, two conglomerates – KNOS and Lukoil – have been formed which unite transport and refining facilities across Russia

Change is now relatively rapid, but confusion remains – and even, is multiplied. At the core of it is a still unformed relationship between the centre and the regions on the one hand and the companies on the other. This is not in itself out of line with world practice: Ms Christine Ferguson, a lawyer specialising in energy with the UK law firm, Norton Rose in Moscow, says that "most western federal countries which are oil producers have disputes between the centre and the states, some of them very bitter. There is usually a deal which splits the proceeds."

For all the confusion, the movement is presently clear: towards greater integration of the industry with the world. Given success for the economic reforms, that integration should proceed.



Sign of the times: grain silos, made from unused rocket casings – and from old trolley buses – at the Yuzhny missile factory

Drastic cost-cuts in research and defence projects have left top scientists with an uncertain future, reports **Leyla Boulton**

A wealth of spare talent

FOR DECADES one of the showpieces of Communist rule, Russian brains are turning out to be one of the better buys for investors seeking opportunities in the newly-capitalist country.

The Soviet Union's collapse last December, followed by price liberalisation and drastic government spending cuts in January, has left an impressive state-sponsored system of scientific research in complete disarray.

This, in turn, has opened up the chance for outsiders to tap the wealth of scientific talent in Russia and the other newly-independent republics.

In the meantime, the disintegration of the old Soviet system has triggered fears among western governments that under-paid scientists will sell Soviet nuclear and other military secrets to Third World dictators.

These fears are no doubt exaggerated – there are still restrictions on the scientists' movement, the Russian government has promised to increase their pay, and many do not actually want to leave the country.

Still, the future appears extremely bleak to many scientists, who have been looked after by the state all their lives and now have to find their own solutions – "if they told us to be patient for a year or two, then we could at least go and work as doormen in the meantime," says Sergei, a computer programmer who has not been paid this year.

While his institute waits for overdue grants from the state (the government blames a physical shortage of banknotes for the delay), Sergei and his colleagues are surviving on a few unofficial orders from defence and other state-owned plants.

But even these are at risk because the industry's own financial resources are rapidly declining as a result of 'across the board' spending cuts. These include a reduction in defence procurement – a leading employer of scientific talent – to 13 per cent of last year's level.

Some scientists have lost no time in helping themselves. One such pioneer is Professor Boris Babayan, who created the supercomputers used in the Soviet space programme and the design of nuclear weapons. He and a team of colleagues at the Institute for Precision Mechanics and Computer Technology are now putting the finishing touches to an agreement to carry out research in Moscow for Sun Microsystems, a Californian computer company.

Prof. Babayan, seeking funds to complete work on a new super-computer, the Elbrus 3, began talking to foreign computer companies a year ago. He is not saying how much Sun will pay him and his colleagues, but it does not take much to improve on his current monthly salary of Rbs2,000 ($20) a month.

Other scientists are choosing to leave the country. One of Prof Babayan's colleagues is emigrating to the US, while three others have taken a prolonged leave of absence of abroad.

While such solutions may secure the future of the very top scientists or those with easily marketable skills, such as programming, they will not be applicable to all.

Nowhere is this clearer than in the *akademgorodok* (scientific village) set in beautiful forest-land, 30km outside Novosibirsk, the biggest city in Siberia.

Conceived in 1957 as a place for scientists to think in peace and live in comfort, it contains more than 20 research institutes – ranging from nuclear physics, mining, inorganic chemistry, and semiconductor physics. The livelihood of 30,000 scientists, receiving an average monthly wage of Rbs1,400, depend on it.

"Our policy is to hang in here until the very last. There's nowhere else to go," says Mr Sergei Kuznetsov, a 44-year-old mathematician at the local Computing Centre, which can carry out mathematical modelling for everything from the weather to military aircraft.

Apart from the shortage of housing which makes it difficult to move ("we're no longer tied here by internal passport rules but by our apartments"), Mr Kuzmetsov says sharp price rises make it prohibitively expensive to travel around to look for other jobs. An air ticket to Moscow costs Rbs540 – or a third of his monthly salary.

He heads the Computing Centre's department for seeking foreign grants to fund joint research projects with the outside world – "it's embarrassing to seek help," he says. "But we perfectly understand that the hand of the state will not reach out to us. We have to do something ourselves.

"Before, we always felt important. Fundamental science used to be one of the achievements thanks to which we compared ourselves to the civilised world, but now we live in a situation where there is little money, poverty and unemployment."

Some western public money, at least $40m already pledged by Germany and the US, has already been promised for a centre within Russia to occupy scientists involved in nuclear weapons production.

Western backers of the project explain that the aim is to attract matching private funds for joint research projects.

Another way out is through domestic entrepreneurship. In a small factory set up on premises belonging to the Botanical Gardens, just outside the *akademgorodok*, Mr Yuri Yurchenko, a microbiologist who used to be involved in the production of biological weapons, now oversees the production of cosmetics.

□ *See also page four: Champion of free enterprise*

The ingenuity and ability of Russian entrepreneurs

Out of the shadows at last

THERE is a little district in Moscow, not far from the prison where the leaders of the August *putsch* are held, where the names celebrate the huge plant in the midst of it: there are *electrozavodskaya*, or electric factory streets and lanes, an electric factory metro station and so on.

The original plant works still, though there are now three different state enterprises instead of the previous one turning out heavy electrical equipment – transformers, generators and switchgear.

In its shade is a smaller building, which encloses sterile rooms in which white-coated technicians produce quartz crystals, oscillators and microchips, together with calculators, fax machines and telephone handsets.

The smaller plant is called Fonon International: its juxtaposition with its neighbour emphasises the point made by Mr Dmitri Nikitin, Fonon's president – this is that "when the 80 per cent of the economy which made industrial goods, largely for the military, begins to collapse, the 20 per cent which makes for the consumer, begins to be set free."

Fonon International works in the sector now freeing itself from the shadow of the giants: as the first declines towards collapse, his grows and flourishes. He is an example of what is happening, here and there: an industrial restructuring, forced by government policy, carried out by entrepreneurs, taking him from the state sector into private business.

"One day I sat down to count how many organisations – of the party, the state, the enterprise, the local authorities – could interfere with my decisions. There were 45."

He also noted that while there were highly skilled people available, "we had no experience of quality mass production."

The company has identified growth markets – of which remote-controlled television sets, not produced until last year, was a significant one. Fonon's quartz crystal oscillator is the technical basis of this industry, and helped explain the enormous explosion in its sales from Rbs26m in 1990 to Rbs1.2bn last year.

The company is determinedly Russian: Mr Nikitin and his colleagues insist that in the high tech area, equipment and know-how is available which rivals the leading edge anywhere else in the world – "the educational level is even higher," he says.

His specifications for production machinery have been produced for him in military industrial plants desperate for new orders: his engineers are all Soviet-trained: the good-looking calculators which now come off his lines at the rate of 50,000 a month have some foreign components and casings, but were Russian-designed.

As the official economy contracts sharply, his company is growing wildly. The main expansion this year and next will not, he says, be electronics, but in the wholesale business, trading under the name of Roditi Moscow and run by Mr Vladimir Krysolov, a former physicist.

Mr Nikitin believes that the immediate future will see a drop in retail sales, as people struggle to exist under a high-price regime: but this will be accompanied by a boom in goods for the new shops and businesses and restructured enterprises. Thus he is importing, besides food and textiles, office equipment and furniture, and computers. The company has set up a distribution network with affiliates around the country: it has even developed a credit card for its customers, who are store and business managers.

The operations of Roditi show the ingenuity and ability to take risks needed for the Russian entrepreneur. The company has just signed a deal with Moscow to import 5,000 tonnes of meat for the city: the price set by the Moscow authorities was so low that Roditi must make up a difference amounting Rbs100m between the (hard currency) purchase price and the (rouble) selling price.

Why do it? "Because, in return, we would get a licence from Moscow to sell nickel: and the profits from that would make up for the subsidy we paid on the meat."

He pauses, then adds: "This is risky. We've delivered the meat, but we still have to get the licence. If someone changes his mind, or the person himself changes jobs, then it could all be gone."

In the manner of Russian companies, he has branched into areas quite different from the core business. Fonon has a company, Yarestavratsia, in the ancient city of Yaroslavl, near Moscow, with around 1,000 employees, which specialises in restoration – both of ancient Russian monuments and churches and of modern western hotels. It is now just beginning a small air-cargo operation.

Mr Nikitin and his fellows are young enough still – in their 30s or 40s: with a training which they are putting to use, but with the ability to learn the ways of business.

"This is the most difficult area for us. But I think that Russian people are very intelligent and also resourceful: they had to think of so many ways round obstacles that business does not present any problems in principle. But of course they need experience. In three or four years time, Russian businessmen will be an international force."

John Lloyd

Decree against corruption

Continued from Page 6

were loath to pass on the money to the Russian government. The money was to set up a socially-useful project.

President Boris Yeltsin last month issued his first decree against corruption, forbidding public servants from getting involved in business, either as intermediaries or employees of private firms.

But Mr Gurtovoi says this is only a first step, which must be followed up by higher pay for government officials so that the administration does not lose its best people to the private sector, "leaving behind the idiots and hardened criminals".

"A civil servant can't live on 2,500 roubles ($25) a month. If we ban him from using his government position to make money on the side, we need to give him conditions for a decent life – that is a high pension, a guarantee he won't be fired, and a system of privileges which we as democrats used to fight against," he explains.

Likewise, a policeman must know that if he dies, his pension will be big and somebody else will look after his children. Otherwise he will run away from thieves, rather than catch them."

In the mean time, Mr Gurtovoi, who used to blow the whistle on government corruption as a top investigative journalist, is intent on catching specific individuals red-handed *pour decourager les autres*.

An opposite view is expressed by Mr Arkady Murashov, head of the Moscow police who says there is no point in conducting an active battle against corruption until the old system is dismantled, demonopolised and privatised.

A leading young liberal politician, he was appointed police chief last year to clean up the police force.

He agrees that police pay must be increased and says that more effective commercial courts would help reduce violent crime since businessmen would be more inclined to settle their disputes in court rather than employing gangsters to deal with unsettled accounts. But he sees the fight against the so-called mafia as an evolutionary process.

"By the highest standards, the Soviet system is totally corrupt," Mr Murashov admits with refreshing candour.

"All decisions are made by Yeltsin and millions of little bureaucrats. If somebody famous comes to the mayor of Moscow and says 'I need a building to set up the Gorbachev Fund,' who will take that decision? The mayor.

"And so a building worth millions of dollars will be transferred to that person. And after a certain amount of time, he will be able to let office space to commercial institutions.

"And after yet some more time, it will be transformed into his private property. Is that corrupt? Yes, it is. But that is how decisions are taken. It is the system."

It is not surprising that from this perspective, Mr Murashov is looking forward to the day when he has just a "normal" *mafia* to fight – say, a US-style drugs trade.

Mr Gurtovoi retorts that the fight must begin now – otherwise "there will be no tomorrow". He warns of a terrible backlash if market reforms are simply associated with chaos and lawlessness.

"Our people won't let this country turn into another Colombia. Instead, a new Stalin will appear and simply shoot people. If we don't catch thieves now, there won't be anything left to steal.

"We'll show up one day and find the Kremlin has been sold."

Leyla Boulton

After decades of environmental abuse, drastic reforms are needed, reports **Judy Dempsey**

Much illness linked to pollution

EDWARD CRANKSHAW once published a set of essays entitled: "Putting Up with the Russians." But perhaps now, since massive military-industrial cities have been opened to the *outside world*, a *subtitle* could be added to the book: "What the Russians put up with."

Apart from the appalling state apparatus of fear and coercion which kept this vast country together, the Russians endured decades of ill-health, not only caused by malnutrition, but by the pollution and radio-active waste which devastated large parts of Russia.

A visit to any large city in the Urals confirms what independent-minded scientists knew for many years. Compared to west European levels where the average life expectancy is 76 years, Russia's level has fallen to 69 years over a period of 20 years.

Experts, including Prof.

'It will take years to *improve our* environment — maybe 20,' admits the president's advisor

Alexey Yablokov, President Yeltsin's advisor *on* ecology *and public health policy*, says over 40 per cent of illnesses are connected with the environment.

In Chelyabinsk, a city earmarked by Stalin in 1929 to forge ahead with the arms race, people constantly complain of headaches. *The most* common operations performed by the local hospital are for heart-related diseases.

The military-industrial complex is one of the roots of the country's enviromental problems. There are many others. The absence of public accountability meant that enterprise managers, regardless of fictional legal penalties, could dump radio-active waste in the rivers and lakes.

Indeed, in the suburbs of Moscow, scientists say the dumping of radio active waste has, and will continue, to affect the health of the capital's citizens.

These same scientists are *hoping that the revolution* affecting the economy will also have a beneficial affect on the environment. But in addressing the problems of the environment, where does one start?

The accident at the power plant in Chernobyl, April 1986, *provided* the first tentative step towards galvanising public opinion against the poor safety standards of these RBMK reactors.

Mr Yablokov believes that all sixteen of the RMBK reactors which are of the Chernobyl-type, should be closed down, immediately.

The problem is that since these reactors provide about 12 per cent of Russia's total energy needs, any immediate *shut-down would lead to a* shortfall in energy supplies.

But Mr Viktor Danilov Danilan, Russia's ecology and resources minister, admits that his country's use of energy is inefficient. Not only are prices still low, waste is phenomenal.

"We lose between 10 and 15 per cent of our oil and gas in the pipes, of which many are *leaking*. We lose about 25bn cubic metres of gas a year. I am sure the real losses are more considerable. They could amount to 30 per cent of our total energy supplies," he explains.

He and other energy specialists *also bemoan the fact that* households cannot monitor their own energy consumption. Not only is the idea of a thermostat non-existent in most Russian homes. But energy supplies to the domestic consumer are centrally-controlled — normally by the local district council. Mr Danilov-Danilan's office had its own, if not uncommon, thermostat: the window.

The ministry estimates that a sum of $10bn could enable Russia's energy supplies to become more efficient, and modernised. This could also allow the *sixteen* RBMK plants to be closed down. But in a country committed to holding *down public expenditure*, Mr Danilov-Danilan is not optimistic.

"I asked the Russian government to allocate to our ministry 2 per cent of the credits we will receive from the international community," he adds. He is still waiting for a reply.

Mr Yablokov, a ceaseless campaigner on the environment over the years says he is in a more *fortunate* position because he has the ear of Mr Yeltsin.

He says that Mr Yeltsin, since coming to office, has already issued six decrees related to the environment.

In *practice*, this means very little. The giant engine of the military-industrial complex,

'For us in Russia, the *ozone layer* is academic. The big issue here is the quality of our drinking water'

particularly in the Urals, is not yet, nor will it, grind to a halt. So any *reductions* in arms production will not have an immediate affect on the environment.

Moreover, a committment to dismantling Russia's vast arsenal of tactical and nuclear weapons offers nightmares as well as hope for the environment. Defence experts in Moscow recall how, as part of the *Intermediate* Nuclear Forces (INF) treaty, signed between the US and the former Soviet Union, dozens of tactical weapons were exploded in Kazakhstan.

"I dare to ask what this did to the environment," commented *one senior* Russian defence analyst.

In the meantime, Mr Yablokov is campaigning for three things: identifying "zones of ecological disaster," creating national parks; and making the water in Moscow and other cities clean enough to drink.

The many maps on his office wall — a *splendid room* overlooking the Kremlin — bear testimony to many of these zones which are scattered throughout Russia and the republics of the former Soviet Union.

Mr Yablokov wants all nuclear testing, and other experiments, stopped. Setting up national parks, he believes, would give the earth time to overcome the decades of abuse. His account of the pesticides and chemicals which have destroyed Russia's forests and lakes are well-known. That fact also explains the sorry nature of the water supplies.

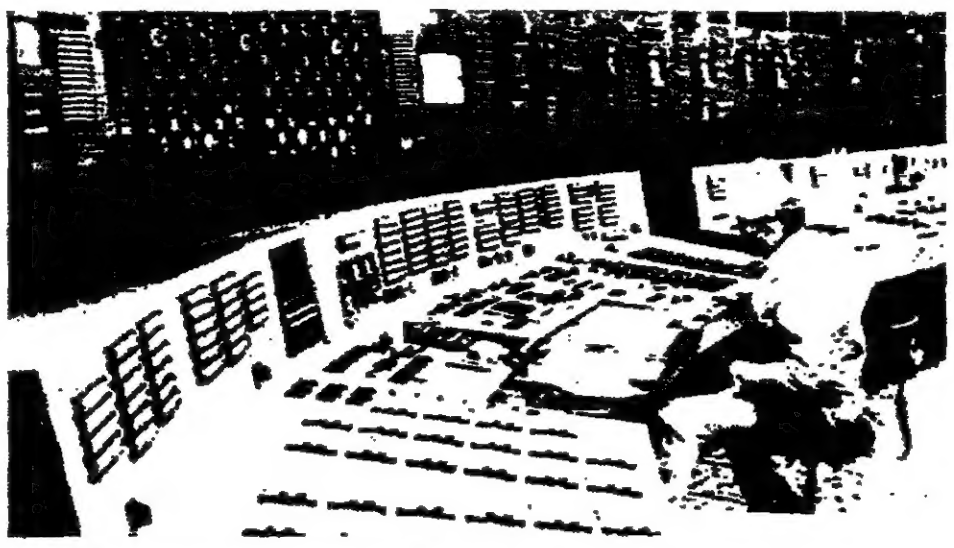
"For us, the ozone layer is academic. The big issue is the quality of our drinking water," said Mr Yablokov.

Some western financial institutions are carrying out studies on ways to clean up Moscow's water system. A new water network would, among other things, involve ripping out the worn 19th century sewerage pipes and replacing lead pipes. But the root of the problem would not be resolved: stopping waste from being poured into the republic's rivers and lakes.

"We do not expect miracles overnight," said Mr Yablokov, adding: "it will take years to improve our environment — maybe 20. But we have to start today, otherwise the next generation will have nothing to inherit."

Picture by Tony Andrews

Industry is the cause of many of Russia's environmental problems. Above: smoke billows from factory chimneys on a Sunday afternoon in St Petersburg.



Flashback: the control room at the Chernobyl nuclear plant, before the disaster in April 1986. *Environmentalists are now calling for a shutdown of 16 other Chernobyl-type reactors*

Picture by Tony Andrews

For this Moscow boy, a long life ahead? Life-expectancy in *Russia has fallen to 69 years due to pollution, claim scientists*

A radical overhaul of the armed forces presents big problems, reports **Judy Dempsey**

Money for butter, not guns, is the priority

Wreath-laying ceremony on Army Day: Russian President Boris Yeltsin at the tomb of the unknown soldier.

AS the legal successor to the former Soviet Union, the reforms which are being undertaken by the Russian government will include a radical overhaul of the armed forces. More importantly, the Russian government will remain committed to introducing sharp and deep cuts in its strategic weapons, as well as drawing up a new military doctrine.

This seems a packed and ambitious agenda over the coming months. But without reductions in the defence budget, coupled with reductions in the production of weaponry, Russia's economic reforms could be jeopardised. Money for butter, not guns, is one of the Russian government's priorities.

Revamping the armed forces is easier said than done. First, there is the question of how to cope with the 12m people who are employed directly, or indirectly with the defence industry. The Russian government is only now coming to terms with this enormous task which will entail retraining, and accepting large unemployment. In the meantime, Russia is trying to convert part of the military industrial complex into civilian projects.

For instance, in some of the military factories in the Urals, managers, admittedly with a sense of regret, and shame, about the way the Soviet Union as a super power has collapsed, have stopped manufacturing tanks. At a giant tank factory at Chelyabinsk, in the Urals, Mr Oleg Guz, a floor manager, explained how the plant is now switching production to earth-remover tractors, and equipment for hospitals.

However, besides airing nostalgia for the old days of regular orders for tanks from the Soviet ministry of defence, he conceded that his plant was still producing parts for tanks.

Nor is the task of converting tanks into household goods welcomed by sections of the former communist nomenklatura in Chelyabinsk. They still believe in the "potential enemy" (the west), seeing little reason for accepting such sharp cut-backs in arms productions. Indeed, they also still believe they should continue to export weapons as a means of earning hard currency.

Conversion is not an easy process. Besides the social cost of rising unemployment - in one enterprise in Chelyabinsk alone, a work force of 60,000 will be reduced by at least 5,000 - it is costly. Mr Andrei Nechaev, Russia's economics minister says the government would provide Rb40bn in soft credits to cover social costs. "To stop military production, you need money to stop it," he explained recently. Mr Nechaev reckons that the defence budget in 1992 will account for about 6 per cent of GDP.

If military conversion will be a costly, and time-consuming process, so too, will be the attempts to pare down the Russian army. Mr Andrei Kokosin, one of Russia's two deputy defence ministers – Mr Boris Yeltsin, the Russian president, is commander-in-chief of the armed forces – says the army will eventually total between 1.2m and 1.5m people.

"It will be leaner, more efficient, and more professional," he says.

But he, and other defence experts in Moscow are quick to add that provisions have to be made for those who will be retired, or retrained. The last thing Russia wants is a disgruntled, redundant officer class, which is partly at the root of the Yugoslav crisis.

Because of these concerns, Russia is in no hurry to withdraw its remaining troops from the Baltic states, eastern Germany, or the central Asian republics.

Besides the fact that Russian troops continue to play an important role in guarding the frontiers which borders with Turkey and other countries in the south of the former Soviet Union, there is a widespread consensus that if these troops were withdrawn, they would have no homes to go to. This is one of the reasons why troops from the Baltic republics have not yet been withdrawn.

"It is not yet clear when and how we will withdraw these troops. It will be carried out on a case by case basis. But withdrawing troops from the border with Turkey – which is a Nato country, will be subject to negotiations with Georgia, Azerbaijan, Armenia, and with NATO as well," says Mr Kokosin.

Parallel to the question of troops withdrawals, and reductions of Russia's armed forces, is the question about formulating a military doctrine. Since the cold war has ended, Russia must now ask itself what role the army should play and what defence strategy it should adopt. Mr Kokosin says Russia "will have the foundations of a doctrine pretty soon which should be ready in detail by the end of the year." He envisages the doctrine to include the following elements:

■ A Russian army would consist of a growing proportion of professionals. There will be a shift away from big formations, to corps and brigade structures, with a much smaller number of tanks – a long-standing tradition of the Soviet army.

"We will be moving towards a west-European structure," said Mr Kokosin. The emphasis will also be placed on rapid deployment forces – and rapid reaction forces; The "shock armies" which had been stationed in eastern Europe – the equivalent of the US's green berets – will act in the rear of the enemy in case of war, and will be integrated into the rapid reaction forces.

■ The doctrine will not be based on the existence of a potential enemy or adversary. The role of the armed forces "will be like an insurance for some unexpected events – for deterrence of any kind of aggression. Also, there will be more emphasis on international peace- keeping exercises," says Mr Kokosin.

The Russian military establishment believe that low intensity conflicts will be the main challenge in future. The ethnic conflicts in Moldavia, Tadjikistan, Azerbaijan and Armenia, and Georgia confirm this assumption.

■ It will be impossible to protect every kilometre of the border (that is, the entire former Soviet Union) with troops and other military formations – "but we should control territory, in some cases, with our allies [of the former Soviet Union]," Mr Kokosin explains.

"We will have special arrangements with the former republics of the Soviet Union, and probably we should have some basic framework of security and co-operation. Russia is already drawing up a set of bi-lateral or tri-lateral agreements with regard to bases, stockpiles of ammunition, and ways in which to bring forces into action," he adds.

■ In the case of a conflict, if the Russian army was not able to deter, the role of the armed forces would be to act quickly and decisively to restore the peace on the terms favourable for those who were attacked.

■ In some cases, units of the Russian army could be stationed on some of the territories of the former Soviet Union – "there will be national armies in these newly formed states. But in some cases, there will be special agreements between the Russian armed forces and the national armed forces – co-operation on training of officers, providing them, not just with equipment but with spare parts, and technical assistance," explained Mr Kokosin.

■ Air defence will also be the subject of bi-lateral negotiations between Russia and the republics. At the moment, air defence is under the control of the Commonwealth of Independent States. Russian defence experts say it is impossible for the Baltic republics to have any kind of serious air defence system of its own.

"I would prefer to have a special agreement with CIS forces and Russia Federation and the Baltic republics, whereby we could keep our radar in Riga, for example, which is very important for air defence. We should probably have a joint air defence system, but under special agreements," explains Mr Kokosin.

So far, so good. But the road to a military doctrine will not be smooth. There are many problems facing the more liberal sections of the Russian defence establishment.

Relations with neighbouring Ukraine, in particular, the future of the Crimea, and who should control the Black Sea Fleet, have to be sorted out. More nationalist-minded politicians, especially those grouped around the Russian Congress of People's Deputies, resent any concessions Russia might make with Japan over the future status of the Kuril islands. And negotiations with the Ukraine over ratifying the START treaty, which entails deep cuts in the former Soviet Union's nuclear arsenal *(see report, left: Moscow's concern)* have to be resolved.

In the months ahead, Mr Kokosin and his colleagues can expect few days rest.

Ratification of the START treaty

Moscow's concern

AS THE successor to the former Soviet Union, the Russian government will undertake to ratify the START treaty signed between the United States and the USSR in July 1991, *writes Judy Dempsey*.

This treaty involves the implementation of deep cuts in strategic weapons on both sides. By 1994, the missiles in the Commonwealth of Independent States (CIS) must be cut from 9,700 to 4,900.

However, ratification of START has encountered some difficulties. The independent republic of Ukraine, led by President Leonid Kravchuk, has intimated that since Ukraine has nuclear weapons stationed on its territory, it should be a signatory to the ratification of START – and perhaps even seek a seat at the START 11 negotiations. The Russian government is reluctant to accommodate Ukraine's wishes.

Moscow's position is that since it is the successor to the former Soviet Union, Russia, on behalf of the CIS, should ratify START and then begin negotiations on START 11. Furthermore, as Mr Andrei Kozyrev, Russia's foreign minister argued: "If Ukraine wants to sign the Non Proliferation Treat (NPT), but at the same time, it wants to be a signatory to START, this position amounts to a contradiction in terms."

Mr Kravchuk has repeatedly said that Ukraine remains committed to the idea of a nuclear-free state. However, it appears he may be trying to extract a price for this status.

So far, and in line with the START reductions, Ukraine has agreed to withdraw 140 of the Intercontinental Ballistic Missiles (ICBMs). The question of the remaining 46, each of which have 10 warheads remains open.

Mr Kravchuk, who is anxious to allay fears, particularly among nationalists, that neighbouring Russia would threaten its security, wants compensation and/or some form of security commitment by western countries in return for withdrawing the remaining 46 ICBMs.

Moscow is also concerned about the 104 strategic weapons located in the republic of Kazakhstan, and the 54 based in the republic of Belarus. These weapons are also included in the START reductions.